FEBRUARY 18, 1955 20 CENTS

U.S. News
World Report

DRAFT TO GO ON—
WHO'LL BE CALLED

WHAT NEXT IN RUSSIA?

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The hammer with the golf club feel

THERE'S a new kind of hammer on the market with a handle that was copied after a golf club shaft. It won't make a week-end golfer want to stay home and drive nails. But it actually has a golf club feel.

The idea was to create a handle that wouldn't break and that wouldn't transmit shock. It had to be stronger than wood, more flexible than solid steel. What could they use? The engineers at True Temper had an idea. Why not try the same tubing for the handle of this hammer that had helped revolutionize the design of golf club shafts—a certain analysis of Timken® steel?

So the first hammer with a hollow steel handle was made. Its tubular steel design "dampens" shock, gives the hammer perfect balance. But how well does it stand up? To find out, they first propped the handle against a curb and rolled a multiple-ton truck on it. The truck rested on the handle, without giving it a permanent bend! Then came the destruction test. The claws were anchored and increasing pressure was put on the handle until something gave. It was the forged steel head that broke—not the handle! With a handle like that, no wonder the manufacturer can guarantee the hammer indestructible for all normal use.

Here was a hammer handle that was stronger and tougher than any other ever made. Yet the Timken steel tubing is easy to draw and heat treat, and the manufacturer can make the handles to close tolerances with practically no rejects.

This is a case where one problem "solved by Timken alloy steel" helped solve another. Your problem may be similar to many we've already solved. If you have a special steel problem, why not bring it to us? Write: The Timken Roller Bearing Company, Steel and Tube Division, Canton 6, Ohio. Cable address: "TIMROSCO". Tapered Roller Bearings, Alloy Steel and Tubing, Removable Rock Bits.

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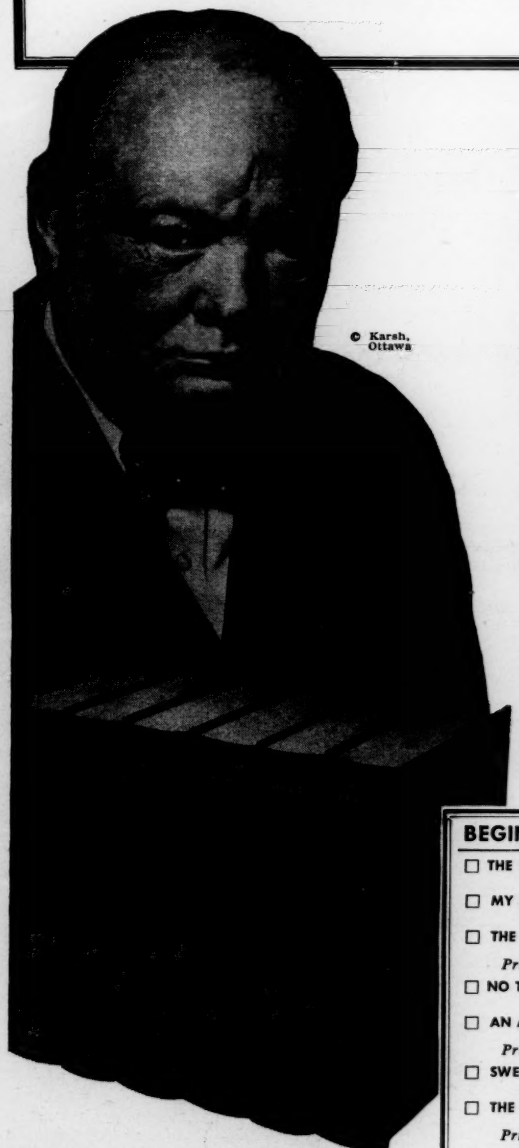

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$36

* To date close to 100,000 men and women have enrolled in the Book-of-the-Month Club as a result of this unprecedented Trial Membership offer. If the demand continues, the remaining copies of the present edition will soon be exhausted. Another edition is unlikely—at least for some time—since it will take an extended period to print and bind such an expensive set.

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★ **YOU WILL RECEIVE ALL SIX VOLUMES OF *THE SECOND WORLD WAR* AT ONCE.** They will be sent with the first book you order from the Club. For a list of good books from which you can choose your first selection, please see coupon below.

★ **AFTER BUYING SIX BOOKS**—and as long as you remain a member—you will receive a Book-Dividend with every second book you buy—a beautiful or useful library volume. This can be afforded because a fixed percentage of what each member pays is set aside in a special fund, and then invested in enormous editions of other books, each of which is a Book-Dividend sent *free* to members.

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IN THIS ISSUE

★ What Upset in Russia Really Means to U.S.

For the whole story, see: Interview with a former Soviet agent, page 70 . . . Two of Russia's new top men talk, page 75 . . . Close-ups of Khrushchev and Bulganin, page 58 . . . Mr. Eisenhower's comments on Zhukov, page 88 . . . How strong Russia is now, page 23 . . . Food —her big weakness, page 28 . . . What next in Russia, page 19.

★ Machines vs. Men—Who Will Get the Jobs?

Do revolutionary new machines mean more, or fewer, jobs for workers? The Economic Unit of *U.S. News & World Report* provides answers in a special survey. See page 92.

★ Ike's Program for More Schools

Here, in detail, is the Administration's plan for emergency action to meet the shortage in school classrooms. Text of Mr. Eisenhower's message, page 78. What it would do, page 30.

★ Contents

March of News 4
Tomorrow: A Look Ahead 9
Washington Whispers 12
People of the Week 14
★What Next in Russia 19
Russia Losing in Economic Race With West 23
Khrushchev Tries Iowa's Corn-Hog System 28
$7 Billion for New Schools 30
★Draft to Go On—Who'll Be Called 32
Where Profits Will Rise Most 38
Mighty 7th Fleet Covers Another Pull-Out 44
Next Trouble Spots for U. S. in Pacific 48
Another Outpost for America: Formosa .. 50
A New German Army—
Where It Stands Now 53
The Men: Khrushchev, Bulganin
The News: Tough Enough to Last? 58
Worldgram 63
We've Been Asked: About GI School Aid 69
Khokhlov: Knows Russia From Inside,
Tells What Comes Next—an Interview .. 70
What Reds' New Bosses Say of U. S. 75
The Fizzle in East-West Trade 76
How Ike Would Aid Schools—
Full Text of Message to Congress 78
News-Lines for Businessmen 80
Paid Informers in U. S.—Frequently Used 83
Ike on Zhukov: "We Were Friends"
From the President's Press Conference 88
Are New Machines Cutting Down Jobs? .. 92
News You Can Use 97
Memo From Japan 101
Labor Week: When 15 Million Workers
Unite—What It Means 104
Indicators of Business Activity 110
How to Keep Good Men in Government Jobs
Recommendations of Hoover
Commission 112
Trend of Business 121
Finance Week: Planning Your Estate 124
Business Around the World 129
David Lawrence Editorial 132

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WORLD REPORT

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Kilowatts or therms?

Would your banker know?

THE LOAD DISPATCHER'S OFFICE of a large Midwestern utility company might be the last place you'd expect to find a bank officer.

But the man you see on the right, looking over instruments on a load control board, is a vice-president of The First National Bank of Chicago.

This banker is from Division H, the Division of our Commercial Banking Department that serves the electric and gas companies. Through his experience—and a close association with utility officials like the one accompanying him here—he has a specialized knowledge and interest in helping your utilities take care of your increasing demands.

He knows the progress that's been made in providing essential gas and electricity. He knows that both electricity and gas have been supplied in increasing volumes and with increasing efficiency over the past several decades by private utilities. He knows that the 1953 tax bill of private gas and electric utilities amounted to approximately 21¢ out of every revenue dollar, or a total of $1,851,000,000.

And this man is typical of *all* the bankers in each of our loaning Divisions. Each Division finances one particular group of industries exclusively. It is staffed by officers who are "industry specialized" bankers—men who get out in the field and study new developments firsthand. This means that whatever *your* business, there's a group of loaning officers at The First who specialize in it. They can serve you better because they know what kind of financing you need and why.

Find out how this modern kind of banking can benefit you. A phone call or letter today will put you in touch with a man from The First—a banker who really speaks your language.

The First National Bank of Chicago

Building with Chicago since 1863

MEMBER FEDERAL DEPOSIT INSURANCE CORPORATION

Can YOU CUT COSTS WITH PLY-VENEER?*

*T. M. REG.

Douglas fir veneer core with kraft facings

PLY-VENEER is both light and strong! It resists warping and delamination due to moisture. It can be routed, folded, sawed, nailed, stapled or glued. Available in several weights.

FOR BOXING & CRATING

Combining high strength and low weight, Ply-Veneer can often replace heavier, more costly materials with savings in space and shipping costs. We manufacture a wide variety of containers to order . . . or you may buy Ply-Veneer as *panel stock* for box and crate fabrication. Various sizes and thicknesses.

FURNITURE & CABINET WORK

An economical material for manufacture of backs, bottoms or interior parts of furniture and cabinets. Easy to work, using standard woodworking equipment, tools and methods.

MANUFACTURING

Often reduces manufacturing cost for a broad range of products now made from plywood, hardboard, plastics, wood, etc. A few typical uses: Games, toys, signs, lockers, luggage, mirror backs, pallets, box shook, file and storage cabinets.

Free Literature

Write for Box or Panel Stock folders.
Field engineering service on request.

Weyerhaeuser Timber Company
DEPT. 101
SPECIAL PRODUCTS DIVISION • TACOMA, WASH.

The March of the News

UNDERPAID CONGRESS?

WHILE GOVERNMENT OFFICIALS discussed the tense situation around Formosa, the "folks back home" had another complaint. Letters to Congressmen rarely mentioned the Far Eastern crisis. But many legislators were getting inquiries about the proposal to raise congressional salaries and allowances to $25,000 per year.

A Senator or Representative now gets a salary of $12,500, plus a $2,500 expense allowance. Representative Victor Wickersham (Dem.), of Oklahoma, says he is one of about 100 House members who are forced to draw their salaries months in advance—and go into debt trying to make ends meet on that amount.

Many voters, apparently, were unsympathetic. The Gallup Poll reported 63 per cent of the people "disapprove" of a congressional pay hike at this time.

MILITARY PROBLEMS

PLANS TO PARE DOWN the size of U. S. armed forces ran into new objections on Capitol Hill. Senator Richard B. Russell (Dem.), of Georgia, who heads the Armed Services Committee, called for a "close re-evaluation" of military cutbacks in the light of the Formosa crisis and the shift in Russian leadership.

General Matthew B. Ridgway, Army Chief of Staff, who has also been critical of the manpower cuts, told a House committee the nation's military Reserves "would fail us in an emergency." The General estimated that it would take 10 months to get National Guard units into combat under the present setup; urged approval of the Administration plan for a "minute man" Reserve force of 3 million men.

BREAKFAST WITH IKE

FRIED APPLES AND SAUSAGE were on the menu as President Eisenhower sat down to breakfast with 22 Republican women. It was the second in a series of get-togethers arranged by the Republican National Committee to give the President the feminine viewpoint.

Besides Miss Bertha Adkins and Miss Anna Wheaton, of the National Committee, these women spent an hour and 40 minutes chatting with Mr. Eisenhower:

Congresswomen: Marguerite S. Church (Ill.); Katharine St. George (N.Y.); Ruth Thompson (Mich.).

National Committeewomen: Mrs. Marjorie H. E. Benedict (Calif.); Mrs. William Preston Few (N. C.); Mrs. Gladys E. H. Knowles (Mont.); Mrs. Gilford H. Mayes (Ida.); Mrs. A. C. Remmel (Ark.); Mrs. Webster B. Todd (N. J.), and Mrs. Neal Tourtellotte (Wash.).

Federal officeholders: Miss Albina Cermak, U. S. Collector of Customs; Mrs. Dorothy D. Houghton, Foreign Operations Administration; Mrs. Dorothy McCullough Lee, Federal Parole Board; Mrs. Alice K. Leopold, assistant to the Secretary of Labor; Mrs. Pearl Pace, Foreign Claims Settlement Commission; Mrs. Robert L. Vann, International Development Advisory Board.

Other Republican leaders: Mrs. Margaret Brock (Calif.); Mrs. James Cathcart (Ill.); Mrs. J. Cheever Cowdin (N. Y.); Mrs. Sara G. Leffler (Penna.).

BOND BONANZA

GETTING RICH QUICK by means of chain letters is still frowned on by the Post Office, even when savings bonds are used in place of money. The latest fad requires an outlay of $37.50 for two $25 savings bonds. The buyer gives one to his sponsor and sends a receipt for the other to the person at the top of a list—after deleting the first name and adding his own at the bottom. Promised return: "$38,400, or $51,200 if you wait 10 years."

Postmaster General Arthur E. Summerfield moved to head off the new craze: He announced an investigation, with possible Justice Department action. Meanwhile, sales of series E savings bonds in January were the highest since 1946.

DIXON-YATES DEBATE

THE DIXON-YATES POWER CONTRACT was still a hot potato in Washington. Atomic Energy Commissioner Thomas E. Murray, who wants to cancel the contract, was outvoted 2 to 1 when the newest AEC Commissioner, Willard F. Libby, joined with AEC Chairman Lewis L. Strauss to oppose cancellation.

Mr. Murray told the Joint Committee on Atomic Energy that the Dixon-Yates matter was holding up business of the Commission, had required 2,087 man-hours of work since last November. Mr. Strauss disagreed; illustrated his testimony with big wooden crates full of AEC "reading papers." After testimony from both sides, the Congressmen set aside the subject, began checking other problems. But few of them expect the Dixon-Yates issue to disappear.

Inviting customers to call collect brings parts sales of $4000 first month

Equipment Supply Co. delivers parts ordered by Long Distance.
The company serves West Texas, Southern New Mexico and Northern Mexico.

A case history of
Equipment Supply Co., Inc.
El Paso, Texas

To give customers quick, dependable parts delivery and service, the Equipment Supply Co. invites its United States customers to call collect by Long Distance.

In the first month of the Call Collect Plan, sales of $4000 in parts were attributed to calls *costing only $60.* And the plan is doing more than building parts sales.

"We know that *new tractor sales* have increased due to this promise of good service," the company reports. "We have gained many new customers as well as improved relations with our old customers."

You can start a similar plan today. The only equipment you need is the telephone on your desk. And there are many other ways you can make Long Distance increase sales. If you would like a telephone company representative to stop in and explain them, call your Bell Telephone Business Office.

LONG DISTANCE RATES ARE LOW

Here are some examples:

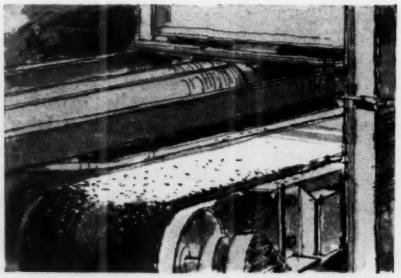
Wilmington to Lancaster, Pa.	**40¢**
Cleveland to Pittsburgh . .	**60¢**
Des Moines to Rock Island .	**70¢**
Cincinnati to Evansville, Ind.	**75¢**
El Paso to Albuquerque . .	**85¢**

These are the *daytime* Station-to-Station rates for the first three minutes. They do not include the 10% federal excise tax.

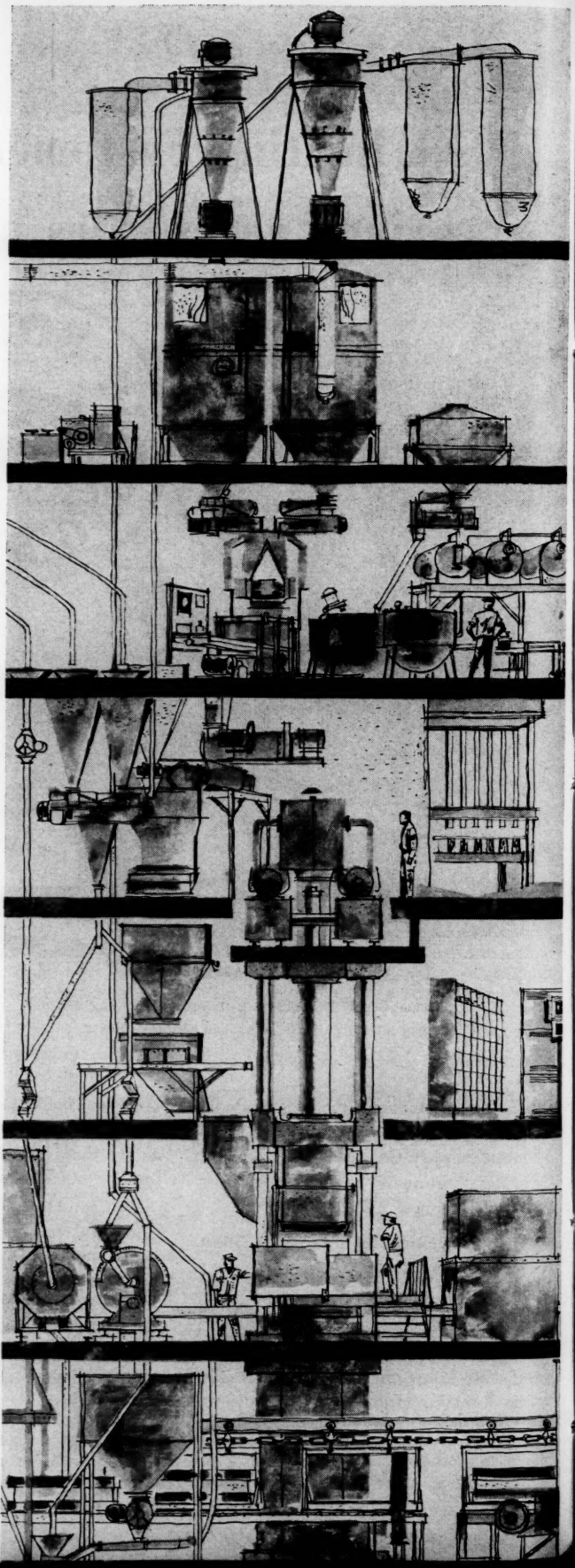
Call by Number. It's Twice as Fast

BELL TELEPHONE SYSTEM

new automatic factory does 18-hour job in 4 minutes



A MOVING BELT starts ground cork on the journey that turns it into cork composition for industrial use. Mixed with binder, ground cork is compressed into mats and cured by a new dielectric method that takes advantage of the polar nature of cork and binder molecules.



Electronics and automation team up to produce better cork compositions for expanding industrial use

Today, in the Pittsburgh plant of the Armstrong Cork Company, a 7-story combination of automatic controls and electronic baking is turning ground cork into cork composition mats faster than ever before . . . and doing it better. Sheets sliced from these mats are far more uniform, make more dependable gaskets, clutch facings, and other cork products.

Cork is one of nature's best heat insulators. That's why, using steam heat, it used to take at least 6 hours of baking to set the binder of a 3-inch-thick mat. Often the outside of the mixture was "overcooked" before the center was done. Now, a mat three times as thick is baked electronically in about 4 minutes . . . 270 times as fast as the 18 hours required to bake three 3-inch mats by the old steam method.

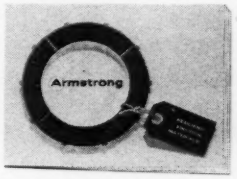
Uniformity in mixing, too, is assured by automatic machinery that thoroughly blends ground cork with binder ingredients. Extremely sensitive equipment is needed because cork is so very light. For example, 4 ounces is the average load metered by a continuous weighing belt that's accurate within 1%.

Cork's light weight creates blending problems, too. It's difficult to make the light particles rub against each other hard enough to spread the heavier binder. A specially designed, high-speed, continuous mixer solves the problem. It pours a large amount of energy into a small amount of cork—30 horsepower into only 10 pounds of mix. Mixing takes place under pressure in the confined area between a cylinder rotating within a slightly larger fixed cylinder. Every particle is coated with binder in 10 to 15 seconds.

To turn the mix into cork composition, it must be compressed into a mold and baked. For high density compositions, mix weighing 3 pounds per cubic foot must be compressed until it weighs 35 pounds per cubic foot. A hydraulic press three stories high does this job. On a 28″ x 50″ plate, it exerts pressures up to one million pounds.

After compression, the mix goes into a dielectric oven. While steam-cured cork composition varied as much as 18% in density, electronically cured mats vary less than 3%—a sixfold improvement.

To meet the changing needs of industry, Armstrong is continually developing new, more dependable types of cork composition. Among the more important are facings for automotive and appliance clutches. For a discussion of cork as a clutch facing, send for the new 20-page illustrated manual, "Armstrong Resilient Friction Materials." Write on your letterhead to Armstrong Cork Company, Industrial Division, 8202 Dunlap Rd., Lancaster, Pennsylvania.



Armstrong INDUSTRIAL PRODUCTS

. . . USED WHEREVER PERFORMANCE COUNTS

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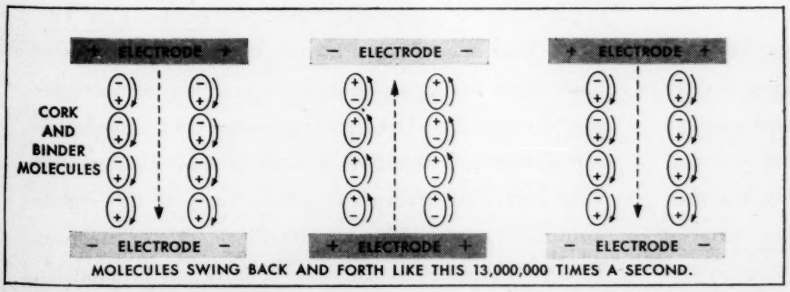
+ ELECTRODE +
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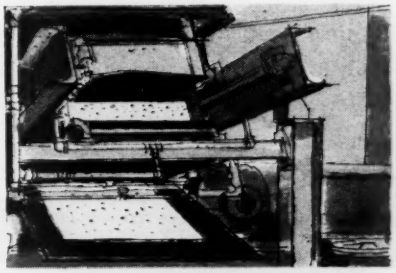
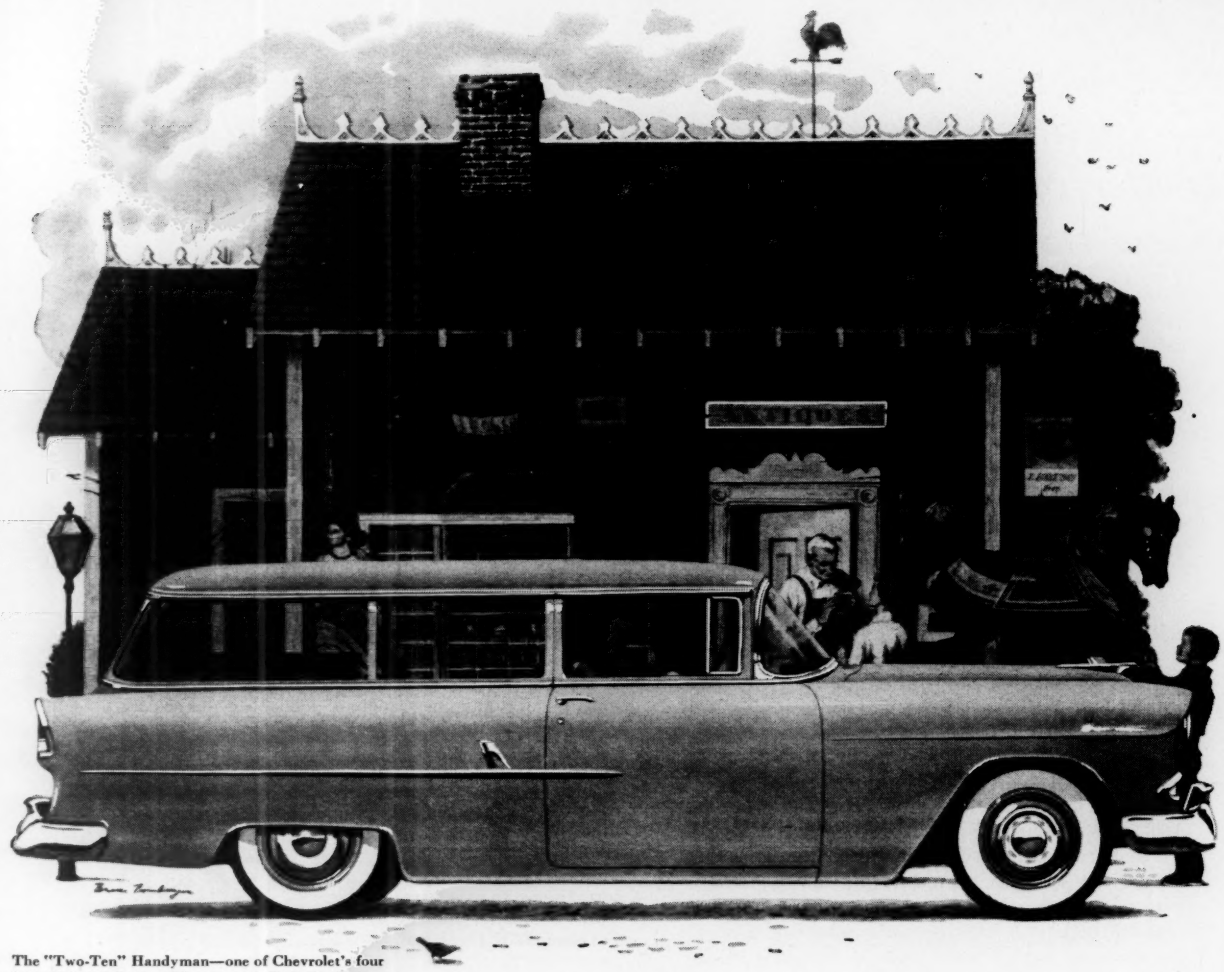
+ ELECTRODE +
CORK AND BINDER MOLECULES
− ELECTRODE −
+ ELECTRODE +
− ELECTRODE −
MOLECULES SWING BACK AND FORTH LIKE THIS 13,000,000 TIMES A SECOND.

CORK AND BINDER MOLECULES are dipoles—that is, electrically positive at one end, negative at the other. When the cork mix is placed between two charged electrodes, the molecules always turn their positive poles toward the negative electrode. By alternating the electrodes from positive to negative at high frequency (13 megacycles), the dipolar molecules are made to swing violently back and forth 13 million times a second. Friction developed between these moving cork and binder molecules uniformly heats the 9-inch-thick mat from top to bottom in only 4 minutes.



THE CURED MAT IS SLICED into sheets varying from 1/32-inch to 1-inch thick. Because mixing is precise and dielectric heating cures the mats evenly, these cork composition sheets are exceptionally uniform in density, tensile strength, compression and recovery range, and in color.



The "Two-Ten" Handyman—one of Chevrolet's four beautiful new Station Wagons with Body by Fisher.

Never have you seen Station Wagons as wonderful as the new Chevrolets!

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FROM THE NATION'S CAPITAL

Tomorrow®

A LOOK AHEAD

Newsgram®

24th and N Streets, N.W.
Washington, D. C.

You can sit back and relax a bit now, pretty sure of these things:

Communists of Russia and China aren't going to start anything. They have troubles enough of their own without borrowing more.

War around Formosa is less of a prospect than ever. Tachen pull-out, arranged by U.S., gave Communists their chance to shoot. They didn't take it.

Bluff and bluster will go on; will frighten some people.

Communists make a business of noise and tough talk. They cash in on the innate desire of non-Communist nations for peace and quiet. They do not, however, take a chance on losing everything just to back up their talk.

Moves going on in the Soviet Union are made from weakness, not strength.

Fear of German rearmament is part of it. Fear of each other and of the Russian people also plays its part in making Russia's rulers uneasy.

Failure of Communism to match non-Communist prosperity has a part.

Communists are getting no place with their system. Farmers balk at producing for an uncertain return. Workers fail to increase productivity under a modified form of slave system. Managers try little new, take few chances when the reward of success is uncertain and the reward of failure is a concentration camp. The whole setup is turning out to be a flop.

Hatred, deep-seated, is one trade-mark of most Communist countries. Hunger, even starvation, is another. Fear, on every side, is a third.

Basic Communist dilemma is simply this:

Give people an inch, and they will demand more, including freedom.

Hold the people down, and pressures will build to ultimate explosion.

Malenkov talked of giving the people more. He couldn't deliver.

Khrushchev now says he'll hold them down. Maybe. Stalin, however, found that it took vast purges, rivers of blood to do that for very long.

Stalin's job was easy compared with the job Khrushchev faces. Stalin had no Eastern Europe, with its 110 million people, to tame. Hatred of the Communists in East Europe is bitter. Stalin, too, didn't face a Germany that may harbor revenge, or a U.S. that might have a few scores to settle.

What to expect of Soviet Russia now most probably is this:

Tough talk will be played up. Khrushchev is known as a tough talker.

Peaceful coexistence will be emphasized less. Threats, designed to hold back German rearmament still further, will be revived.

Armament industries in Russia will continue to be emphasized.

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Party control of the Army will be tightened, if possible. Bulganin is a party hack with broad experience in keeping the Army under Communist control. Voroshilov, pushed out front, is just a figurehead, a stooge even though he bears the label of "Marshal." Zhukov, Ike's friend, is a real marshal and Army man but of uncertain power over the ruling party hierarchy.

Khrushchev is strictly a Communist Party man.

Always remember this: Stalin never trusted his Army until he had killed and then replaced most of the officer corps above the rank of major.

Khrushchev now faces an officer corps built up during the war and not of assured loyalty to him. Danger, sensed by Stalin, faces to an even greater degree the man who now aspires to be Russia's dictator. It's uncertainty about the attitude of men and lower-ranking officers that makes life so uneasy for the self-perpetuating group of Communists who want to rule.

This much does seem evident from Russia's political weakness:

Communist China can be less sure of help from Russia in new ventures.

"Coexistence" is to be more difficult, with uncertainty concerning just who is to share the coexistence. Things are too unsettled inside Russia.

Neutralism may lose a little attraction.

Politicians abroad who were ready to bet on Communist Russia over the non-Communist U.S. might begin to look a little silly now.

In U.S. it's hard to see how the momentum of business activity can be broken at any time in 1955. It'll slow in summer, but pick up again.

Income trend remains upward. Wage rates are rising. Dividends are rising. Employment is stable and is likely to rise.

Prices, at the same time, are stable to a bit lower.

Pressures are on the side of high-level activity. Auto output, booming, will slow. Steel might slow somewhat with autos. It's the soft-goods lines, though, that may tend more to feature the prosperity of this year. Building, too, seems assured of a record year. There is ground for optimism.

Profit outlook is favorable, too. Profits in first quarter, 1955, will break records for many companies. High profits will make difficult strong resistance to coming wage demands in steel and in autos.

Wage inflation seems probable once again in this year.

Merger of AFL and CIO will have great importance over time.

CIO, fading out, went in strongly for newfangled ideas. AFL, taking over, represents more old-fashioned trade unionism, less fancy programs.

One-big-union idea, however, can offer more political power, more of the financial sinews needed to organize unorganized workers.

Merged labor organizations will have an estimated 15 million members.

White-collar workers will be the object of the first organizing drive. The South, eyed by unions, may not be tackled--all-out--for some time. Recent union efforts in that part of the country did not pay off well.

Strikes, probably, will be fewer. There'll be fewer interunion fights. CIO that came in with the New Deal is fading in the newer climate.

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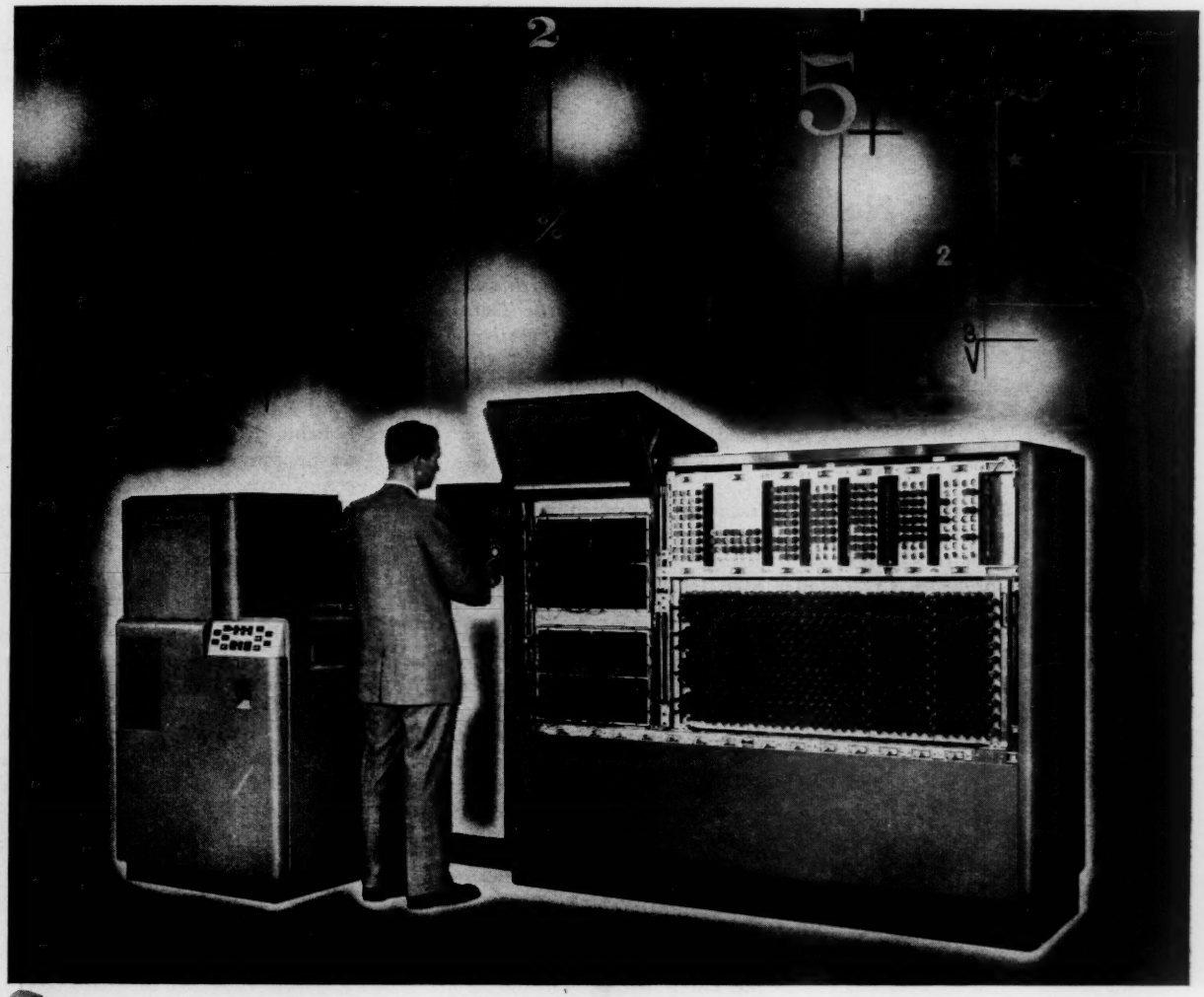

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Does Univac 120 eliminate intelligence? Certainly not. But it does free your skilled personnel for creative thinking. Wherever you pay for clerical chores that involve analyzing, classifying, making logical decisions, comparing and calculating . . . Univac 120 electronic methods will earn their way over and over in speed, accuracy and efficiency. Put it squarely up to us to show you *how* and *where*.

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Washington Whispers®

[Items appearing on this page are reported in Washington and other news centers]

Subsidy Rise Under Republicans? . . . Kremlin Switch Worries Nehru . . . A '56 Push for Senator Johnson

President Eisenhower is intrigued by the idea of a personal get-together with his old friend Marshal Georgi Zhukov. However, the suggestion of an Eisenhower-Zhukov meeting, at which they would not be present, worries the British.

★ ★ ★

Sir Winston Churchill, Britain's Prime Minister, who has been looking for a way to confer with Russians "at the summit," suddenly is confronted with the practical problem of deciding what is the "summit." The British were much impressed by Georgi Malenkov as the No. 1 man, only to find that the man they bet on has his duties confined to supervising power stations.

★ ★ ★

Sir Winston, at 80, again is signaling delay in a general election that might precede his retirement. Sir Winston has told recent callers that tension off Formosa and inside Russia prompts him to keep his experience available to the nation in critical times.

★ ★ ★

India's Pandit Nehru, who has been betting on Russia in all of Russia's differences with U. S., is beginning to wonder whether he has put his money on the right horse. Mr. Nehru is in less of a hurry to pay a state visit to Moscow than he was a few days ago.

★ ★ ★

Charles Bohlen, U. S. Ambassador to Russia, did not go along with the British in sizing up Malenkov as Communism's strong man. His reports had prepared the State Department for the latest overturn in the Kremlin.

★ ★ ★

It is beginning to dawn upon some people, besides hard-boiled American military men of the period, that it was American food, American oil and American transport that gave the Russians the means with which they finally drove back the Germans in World War II. The relatively small nation of Germany had almost defeated the Russians with one arm while fighting with the other arm in the West.

★ ★ ★

Industrialists of India, after inspecting Russian steel plants, advised against buying such a plant for India. Mr. Nehru went ahead, nevertheless, for political reasons.

★ ★ ★

Gen. Matthew Ridgway, Army Chief of Staff, is being asked to provide U.S. troops to support the Eighteenth Air Wing of F-86 jets on the island of Formosa. This is expected to be just the first request for Army troops to be stationed in Formosa to guard Air Force and Navy installations.

★ ★ ★

Troop commitments abroad are rising at a time when the U. S. Army is being cut down rather sharply in size. It is this kind of situation that has caused General Ridgway to register a protest.

★ ★ ★

The President is irritated by the fight getting under way in Congress over the Atomic Energy Commission. The troubles within that Commission, forced into the open by Democrats looking for a political issue, tend to grow with public attention.

★ ★ ★

Mr. Eisenhower, who would like to add more aides to his White House staff, is running into budget trouble. Unless Congress votes him more money, the President has about all of the staff that he can hire.

★ ★ ★

The name of Lyndon Johnson, Texas Senator and Majority Leader of the Senate, is being pushed quietly by his friends as a man around whom Democrats can rally in 1956. Opponents of Adlai Stevenson are more and more interested in Senator Johnson.

★ ★ ★

Paul Patterson, Governor of Oregon, is being groomed as the man to take on Senator Wayne Morse when the senior Oregon Senator stands for re-election in 1956. Governor Patterson is regarded as a comer among West Coast Republicans.

★ ★ ★

President Eisenhower has told friends that he made a political mistake by not telling the public more about the Dixon-Yates power contracts in early stages of negotiations for private power development in the TVA area. By trying to keep negotiations secret until completed, the White House enabled the Democrats to build an issue.

★ ★ ★

George Humphrey, Secretary of the Treasury, is not happy about the growing number of plans for new subsidies that are being proposed by Republican members of Congress with strong political support. Instead of fewer subsidies, as promised in 1952, a Republican Administration may end up with more than the country had under the Democrats.

★ ★ ★

Sam Rayburn, House Speaker and leader of the Democrats in Congress, is softening a little toward the White House. The President's friendly attitude toward him makes it hard to carry a grudge, and, as the months go by, campaign bitterness tends to fade.

★ ★ ★

Some White House aides are remarking quietly, and in a pleased sort of way, that the Democrats are proving less bothersome with investigations now that they are in control of Congress than the Republicans themselves were when they had control during the last two years.

"I gain 2 hours a day"...so can you!

When Joe was home or on the road, he'd work till late at night • To write out all his letters, orders, memos—what a fight it was, till Hal, his lawyer friend, said, "Try instant dictation • With Dictaphone TIME-MASTER*—best machine in all the nation.

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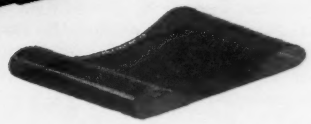
The plastic *Dictabelt* record—unbreakable, mailable, filable and exclusively Dictaphone's.



DICTAPHONE TIME-MASTER DICTATING MACHINE

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PEOPLE ★ ★ ★

OF THE WEEK

› PATRONAGE MAN at the White House is a young fellow, with little experience in politics, who finds he is having to duck brickbats—both from influential Republican Senators who complain that deserving party members get too few jobs, and from Democrats who say the Civil Service is being manipulated to provide political jobs. **Charles F. Willis, Jr.,** is the man in the middle.

Traditionally, patronage is handled by a seasoned organization politician who often is appointed Postmaster General. Mr. Willis, only 36, is a much-decorated former Navy fighter pilot who, after the war, founded and built up a private flying school and an airline-service company. His political experience was gained mainly as an official in the Citizens for Eisenhower movement, which led to his appointment as patronage aide to Sherman Adams, Assistant to the President.

"Patronage" is a word that, to the President, was linked with what Republicans called the "mess in Washington." So the job program he laid down for Mr. Willis applied almost solely to policy-making posts. Lately Mr. Willis has frozen Civil Service vacancies to give Republicans first crack at jobs, and he confers every two weeks with special assistants for patronage in each major agency. So far, about 30,000 jobs are said to have been filled with Republicans.

› ATOMIC INDUSTRIALIST planning to start soon on constructing the first commercial atom-powered electricity plant is **H. R. Searing,** an engineer who became president of Consolidated Edison Company of New York. Other utility executives have been telling the Joint Congressional Committee on Atomic Energy about anticipated difficulties in financing a plant. Mr. Searing said his company would pay for its out of company funds, to the tune of 30 million to 40 million dollars.

As Mr. Searing described his approach to the new atomic-power business: "We . . . consider a reactor in the same manner as we would any other addition to our system . . ." All the help it wants from the Government, the company says, is the chance to buy or lease atomic fuel, now solely owned by the Government.

Mr. Searing, now 59, went to work for New York Edison, predecessor of the firm he now heads, when he was 14. He took night courses at Cooper Union, was graduated as an electrical engineer. By 1939 he was chief operations engineer, 10 years later became president of Consolidated Edison.

› CLEMENT ATTLEE, former Prime Minister of Britain, seems to be swinging toward the left-wing, anti-U. S. views so often expressed by Aneurin Bevan, his fiery rival for leadership of the Labor Party. British politicians speculate that Mr. Attlee is shaping up issues for a national election, expected within a year.

As Prime Minister, Mr. Attlee mounted Britain's greatest peacetime rearmament program, in concert with the U. S. His Cabinet also was responsible for British recognition of Communist China. In the Korean war, Mr. Attlee was criticized by the present Prime Minister, Sir Winston Churchill, for being slow in dispatching British forces, and many Americans also felt that Mr. Attlee was

(Continued on page 16)

THE GENERALS WHO BEAT THE NAZIS—WILL THEY MEET AGAIN?

FRANKFURT: A friendly toast by the victors

LENINGRAD: A triumphant tour for the warriors

—United Press, Sovfoto

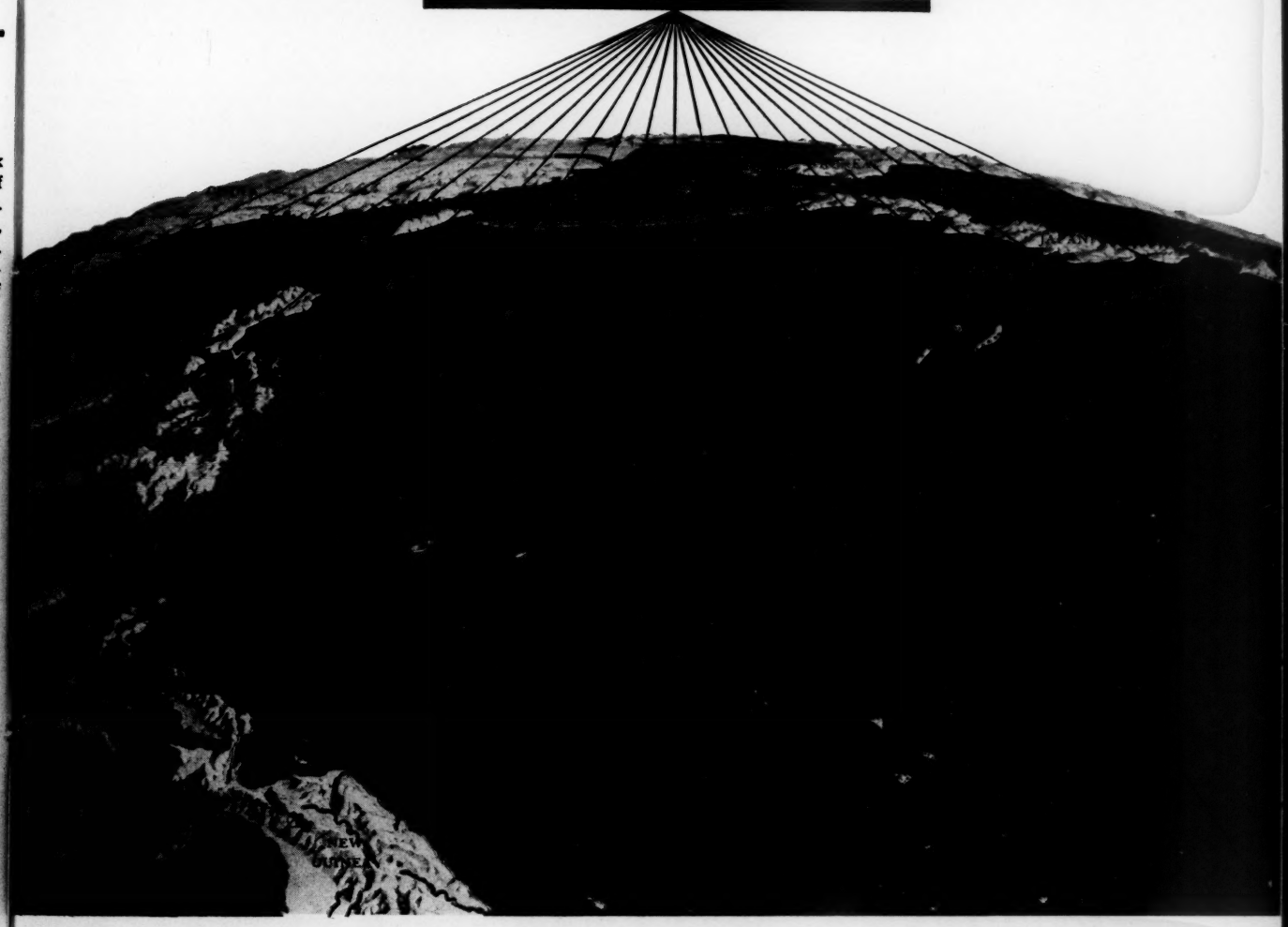
FRANKFURT: A Russian medal for the American

› OLD SOLDIERS who hold high places now in world politics—**Gen. Dwight D. Eisenhower** as President of the U. S. and **Marshal Georgi K. Zhukov** as new Soviet Defense Minister—talked nostalgically last week about chances of renewing their old acquaintance.

Zhukov said he still dreams of visiting the U. S., a trip he suddenly canceled in October, 1945, when he was to have toured U. S. ground and air bases.

The two men met in Berlin in June, 1945, where General Eisenhower pinned the Legion of Merit amid Zhukov's chestful of medals. Five days later, Zhukov went to Frankfurt, presented the Soviet Order of Victory, crusted with diamonds, to the U. S. commander. Visiting Russia two months after that, General Eisenhower put his arm across the Marshal's shoulders at a soccer game, later said their friendship was "a personal and individual thing." But as for a new invitation to Zhukov to visit the U. S., the President told his news conference, that "would be a remarkable thing at the present state of affairs. . ."

bases unlimited



The recent unveiling of the United States Navy's new 4-jet waterbased aircraft, the Martin XP6M SeaMaster, has focused attention upon one of the most important discussions in America today: The Waterbased Aircraft concept.

In essence, you are looking at that discussion in the piece of our world shown here. It is a glimpse of the countless free and indestructible water bases available throughout the eastern Pacific area.

Did you know that . . .

. . . The SeaMaster has global range, operating from the seaways, lakes and navigable rivers of the world — water bases that are within a few miles of virtually any area on earth.

. . . The SeaMaster is Ship No. 1 of a new aircraft *type*. In speed it is in the over 600 m.p.h. class, and it spearheads a whole new arm of the naval arsenal — the Seaplane Striking Force.

. . . The SeaMaster is not a research airplane, but the prototype of an operational weapons system designed to remain on duty for extended periods anywhere in the world. For the Navy program includes facilities for off-shore maintenance, refueling and resupply which give it a mobility never before possible in military aircraft.

To American security the SeaMaster now offers *bases unlimited!*

MARTIN

BALTIMORE · MARYLAND

CONTINUED

–United Press

GEN. EARLE E. PARTRIDGE WITH CHIANG'S AIRMEN
. . . a long front to watch

instrumental in restraining decisive attacks by United Nations troops.

Last autumn, Mr. Attlee returned from a lengthy tour of Russia and Communist China. Since then he has repeatedly suggested pulling the U. S. fleet away from Formosa, leaving the island open to Communist attack. Currently he is generating new political excitement with a proposal for total world disarmament.

› **GEN. EARLE E. PARTRIDGE,** commanding the U. S. Air Force in the Far East, is watching a long and explosive front along the Chinese and Siberian coasts with men and airplanes that he believes to be considerably outnumbered—perhaps as much as 3 to 1. Outnumbered or not, he aims to have attacking Communist planes shot down, and it was two fliers under his command who sent a pair of Communist MIG's spinning into the China Sea. That incident forcefully demonstrated the policy that U. S. planes are no longer to be sitting ducks for marauders.

In the Air Force, General Partridge is best known as an expert in strategy and operations. In World War II, he planned bombing raids in both North Africa and the Pacific; in Korea, he commanded the Fifth Air Force for nearly three years. Recently he dispatched a fighter-bomber wing to Formosa as a precaution. He keeps planes on frequent patrols. What if war should break out? The first objective, as he sees it, would be to gain control of the air by knocking out air bases in China, Korea, perhaps in Siberia.

› **PIERRE MENDÈS-FRANCE,** although knocked out of the French Premiership by the turbulent National Assembly, will probably remain a strong influence in French politics. Frenchmen, for the first time in many years, have been impressed with the personality of a leader who broke the sequence in a long line of "do nothing" chiefs of government.

Ever since World War II, Mr. Mendès-France has sought to put more iron in the French backbone, make the country face its problems instead of running from them. At the end of the war, he proposed drastic reforms in taxes and in public and private finance. The Cabinet refused them, and the uncompromising Mendès-France resigned as Minister of National Economy.

Refusing Cabinet jobs repeatedly, the forceful economist needled one Government after another, urging action. He can be expected to renew his criticism and to be heard more widely now that he is well known. And if the next Government bogs down, Mr. Mendès-France may be returned to power.

› **NEW COMMANDER** of the U. S. Army in Europe is an officer who has had his finger on almost all recent developments in the methods of war. **Lieut. Gen. Anthony C. McAuliffe,** nominated a full general last week, has taken part in atomic-bomb tests, in research on new weapons, in studies of gas and germ war.

Troops that General McAuliffe commands would have to take the brunt of Communist assault, if the new, tough-talking Soviet regime decided to move in Europe. In defending this frontier, the major problem is to spread forces thin enough to withstand atomic attack, yet thick enough to hold a ground attack. To bolster defense, the General already is asking for more armor to increase mobility and firepower.

Jobs that General McAuliffe has held since World War II have kept him out of the limelight. During the war, he was noted for parachuting into Normandy on D Day and for replying to a German surrender demand at Bastogne with the single, slangy word: "Nuts."

–United Press

PIERRE MENDES-FRANCE SITS ALONE
. . . still a strong influence

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The Stratofortress program—full speed ahead

More than two and a half years have passed since America thrilled to the news that the world's greatest bomber—the eight-jet Boeing B-52—had made its first flight. What has happened in the meantime? Where are these global giants today and how is their production program progressing?

The fact is that exceptional progress is being made in readying the B-52 for duty. The intensive flight-test program has been most successful. B-52s are rolling off the line on schedule at Seattle, and Boeing's Wichita Division is rapidly tooling up to become a second source of production.

A key factor in this progress is Boeing's organizational strength. The company brings to the job immense resources of engineering man power, research facilities and manufacturing ability. Through its experience in designing and building multi-jet aircraft, unmatched anywhere in the world, Boeing has made outstanding advances in reducing the time lag between design and delivery of such a complex weapon as the B-52.

Nearly 8,000 hours of aerodynamic research in the company's own wind tunnel have saved years of costly time in getting the big bomber into the air and into production.

Today's eight-jet B-52 Stratofortress can fly faster than 600 mph, can operate above 50,000 feet and has intercontinental range. It is a powerful deterrent to aggression—a mighty weapon in the arsenal of freedom.

BOEING

WHAT NEXT IN RUSSIA

A Struggle for Power as Red Empire Goes Downhill

If you were a Russian, you wouldn't be doing much sleeping these nights. A harder life is about all the Soviet people are going to get out of the latest shake-up among their leaders.

Doubt, confusion prevail at the top of the Red empire. People are fretful, bosses fearful. Whole setup seems to be sliding downhill.

War involving Russia remains remote. But Soviet leaders may think war between the U. S., Red China will do them some good.

New strong man, Nikita Khrushchev, faces old dilemma: How can you make slaves prosperous?

Communist Russia, as a rival of U. S., is on the downgrade, headed lower. This much seems certain as the Soviet regime goes from one crisis to another.

• Political stability doesn't exist. Even in the Red dictatorship, a man can't count on staying on top. Nobody has proved he is boss. There is no way to find a legitimate leader.

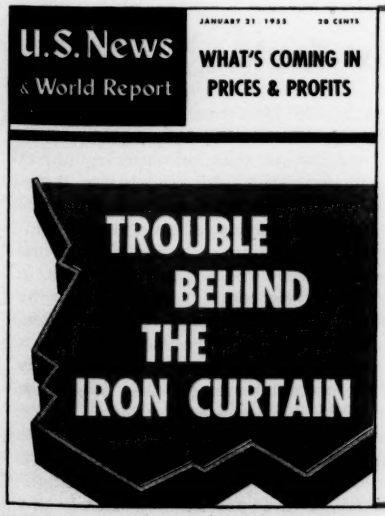
• Nikita Khrushchev, supposedly the new strong man, is yet to be tested. It took enormous purges, rivers of blood, to make Joseph Stalin into an absolute dictator. Even so, when he died there was suspicion that he had been murdered. Khrushchev, trying to wear the Stalin mantle, has the whole task ahead of him.

• The people of the Russian bloc are restive. Once more they are being told that they cannot have enough to eat or wear, that they must hate Americans and make arms and heavy machinery instead. Government in the Soviet Union does not rest upon a happy people.

• Farming and industry are lagging. The non-Communist world is booming, pushing ahead, while the Communist empire, already down at the heels, skids further toward bankruptcy.

• Satellites of Soviet Russia, painfully aware of the rot at the center of the Red empire, are eaten by new doubts. Satellite leaders are increasingly confused, afraid of their own people.

All these things can be accepted as obvious results of the third shake-up at



FOR YOUR REFERENCE:

In the Jan. 21, 1955, issue of *U. S. News & World Report*, you got these stories on trouble behind the Iron Curtain: All about a Khrushchev-Malenkov struggle for power, with Khrushchev's views winning out, page 42 . . . How food is the problem the Communists cannot beat, page 61 . . . Prospects for war or peace under conditions of constant turmoil in the Kremlin, page 54 . . . Basic troubles that persist in the Communist world at a time when the capitalisic world is booming, page 17 . . . Eyewitness report on "much sabotage" in Russia, page 48 . . . See the February 4 issue, page 63, for text of Khrushchev's speech urging Red China to challenge U. S.

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the heart of Soviet power within the space of less than two years.

First, Marshal Stalin's curious death pushed Georgi Malenkov to the top, as sort of chairman of the board. Then came the sudden drama of arrest and execution for Lavrenti Beria, head of the Soviet secret police. Beria had been a Malenkov man, an aspirant for the top Soviet job. Now Khrushchev has pushed Malenkov aside, demoting him to look after power plants.

What to expect. The new strong man of Russia is taking over a bundle of basic troubles that range from acute food shortage to threatened revolt.

Here are the things that the non-Communist world can be quite sure about:

War with Soviet Russia itself is about the last card in the deck. The ruling group in Russia, still reorganizing its secret-police system, will be less certain than ever about the reliability of its military forces.

The military is not too certain of Khrushchev, although he has wooed some of the big generals recently. Premier Nikolai Bulganin, the new front man, is a Communist Party hack, a political general without broad military background. Until the new regime can be sure of the Army, military adventures are not looked for.

War through satellites, using Chinese or other people to do the fighting, is something else again. Khrushchev, visiting China in late 1954, egged the Chinese Communists on toward a fight with the United States. There are signs he may try it again.

If Soviet leaders were able to push the Red Chinese into a "hot war," they might feel they would accomplish three things: (1) Weaken China and force it to greater dependence on Russia; (2) damage the U. S. economy and tie down American armed strength; (3) give themselves a breathing spell to try to get Russia's own affairs into some kind of order.

—Sovfoto

WHEN STALIN DIED: Funeral line-up included Malenkov (left, front) and Beria (right, front) in places of honor. Khrushchev was out of sight on right.

Cover for fear. In any case, you will have to get used to tough talk and bluster coming from Moscow for some time to come. It is designed to cover up Russian weakness, to give the Soviet people something to think about besides their hard way of life.

The top Communist officials already have sounded off with warnings to the United States. Vyacheslav Molotov, the Foreign Minister, used thousands of words to claim that the Soviets lead the United States in hydrogen bombs. He wanted the world, and the Russians, to feel that the Soviet Union is strong and tough.

Same theme of warning and braggadocio runs through all the talk by Russia's top men. "Coexistence" theme is dead and buried. Many qualified people regard the new, harsh line as a cloak for fear.

Communist Russia's leaders, weak at home, are riding herd on an empire that

Famous Last Words . . . Communist Style

—Sovfoto

Following is the full text of a statement by Georgi Malenkov to a joint session of the Supreme Soviet of the Union of Soviet Socialist Republics on Feb. 8, 1955, announcing his resignation as Premier:

To the chairman of the joint meeting of the Soviet of the Union and the Soviet of Nationalities:

I ask you to bring to the notice of the Supreme Soviet of the U. S. S. R. my request to be relieved from the post of Chairman of the Council of Ministers of the U. S. S. R. My request is due to business considerations on the necessity of strengthening the leadership of the Council of Ministers and the need to have at the post of the Chairman of the Council of Ministers another comrade with greater experience in state work.

I clearly see that the carrying out of the complicated and responsible duties of Chairman of the Council of Ministers is being negatively affected by my insufficient experience in local work, and the fact that I did not have occasion, in a ministry or some economic organ, to effect direct guidance of individual branches of national economy.

I also consider myself bound to say in the present statement that now, when the CPSU [Communist Party of the Soviet Union] and the workers of our country are concentrating special efforts for the most rapid development of agriculture, I see particularly clearly my

—Wide World

WHEN MALENKOV FELL: Khrushchev moved to front row center. Others in row: (L to R) Kaganovich, Bulganin, Malenkov, Voroshilov. Beria was dead.

is fretful and shaky. Some high officials in the West are known to be convinced, on the basis of much accumulated evidence, that some of the Communist satellites are edging into a state of explosion.

Frightened serfs. This is said to be true of all the East European "slave states" with the possible exception of Bulgaria. "Soft" policies emanating from the Malenkov regime only served to make things more difficult for the satellite bosses.

In Hungary, attempts to follow the Malenkov "new course," now dead, flopped badly. Drive for more goods, food, fewer restrictions bogged down. After a year and a half, industry produced fewer and poorer goods than before. Labor discipline slackened, peasant resistance increased. Crops were burned.

"Persuasion" instead of orders didn't work. Farmers, permitted to withdraw from co-operatives as a gesture of conciliation, left in droves. Labor shortages developed on farms, in mines. White-collar workers went jobless in cities.

In Czechoslovakia, farmers slowed production, workers refused to carry out new programs. No one in industry wanted to take a responsible position. Here, again, a labor shortage developed on the farms and the party drive for collectivization stalled.

In Poland, authorities shook up the state-police system again. This is still going on, to prevent defections. In the country, Polish farmers are resisting collectivization, and officials have had to move cautiously.

In Rumania, resistance to new farm directives was so high that a party congress had to be postponed "because the people are too busy." It was the same story: Communist officials found they couldn't get more production by going easy on farmers and workers.

In Albania, resistance to the regime has been open and active; the country spends more time than any other satellite in subduing subversion. The Army is not used on guerrilla hunts because it isn't considered reliable enough.

Bulgaria, the most backward satellite, is simply regarded as being in a state of political stagnation. Insiders say that, if Russia wants only stability, it can have it in Bulgaria. If it wants production, there will be trouble.

Specter of doubt. Now, with Khrushchev trying to hold the helm in Moscow and with Malenkov's easy "new course" in full reverse, the source of Soviet weakness everywhere is doubt.

Doubt as to who really is the boss; doubt about why there is instability at the top; doubt about the reliability of the whole machinery of Communist empire—this background of doubt and confusion, diplomats say, is evident in Khrushchev's cautious approach to power, in the fact that Malenkov was merely demoted, not shot; in the story of the struggle between the two men.

The dispute was on the issue of light

---

guilt and responsibility for the unsatisfactory state of affairs which has arisen in agriculture, because for several years past I have been entrusted with the duty of controlling and guiding the work of central agricultural organs and the work of local party and administrative organs in the sphere of agriculture.

The Communist Party, on the initiative and under the guidance of the Central Committee of the CPSU, has already worked out and is implementing a series of large-scale measures for overcoming the lagging behind in agriculture.

Among such important measures is, undoubtedly, the reform of agricultural taxation, regarding which I think it opportune to say that it was carried out on the initiative of and in accordance with the proposals of the Central Committee of the CPSU. It is now evident what important role this reform played in the task of developing agriculture.

Now, as is known, on the initiative and under the guidance of the Central Committee of the CPSU, a general program has been worked out for overcoming the lagging behind in agriculture and for its most rapid development.

This program is based on the only correct foundation: The further development by every means of heavy industry, and only its implementation will create the necessary conditions for a real upsurge in the production of all essential commodities for popular consumption.

It is to be expected that various bourgeois hysterical viragos will busy themselves with slanderous inventions in connection with my present statement, and the fact itself of my release from the post of Chairman of the U. S. S. R. Council of Ministers, but we, Communist and Soviet people, will ignore this lying and slander.

The interests of the motherland, the people and the Communist Party stand above everything for everyone of us.

Expressing the request for my release from the post of Chairman of the U. S. S. R. Council of Ministers, I wish to assure the U. S. S. R. Supreme Soviet that, in the new sphere entrusted to me, I will, under the guidance of the Central Committee of the CPSU, monolithic in its unity and solidarity, and the Soviet Government, perform in the most conscientious manner my duty and the functions which will be entrusted to me.

Chairman of the U. S. S. R.
Council of Ministers, *Malenkov*

vs. heavy industry, but Russia's desperate need for more food was at the core of it.

Malenkov wanted to make more consumer goods, to be produced in a three-year light-industry plan, as an incentive to encourage farmers to boost output. He also favored cutting farm taxes, permitting collective farmers more leeway in cultivating small, private plots.

Khrushchev thought the way to get the crops was to promote gigantic virgin-land projects, to reclaim 70 million acres of central-Asian prairies by shipping out up to a million youths as colonists.

During the last year, both the Malenkov and Khrushchev plans were pushed ahead at the same time. It soon became clear that one had to give. The Khrushchev idea created the need for tens of thousands of new tractors, massive construction projects for new towns, roads, power stations.

Speedy expansion of heavy, not light, industry thus was deemed essential to the Khrushchev plan. Light industry couldn't expand at the same time, if Khrushchev's dream was feasible at all.

What helped Khrushchev was that the consumer-goods program fell apart anyway. Collective farmers failed to respond to the meager incentives offered them.

So Malenkov lost. Now it's up to Khrushchev to try to make his own grandiose plan work—to turn the arid Asian plain into an enormous breadbasket.

But how? Experts on Russia believe it will take ruthless discipline, maybe vast purges, before Khrushchev can remove doubts, establish that he really rules, force productivity from peasant and worker in a country more remote and forbidding than anything the early American homesteader entered upon.

The experts point out that, under Marshal Stalin, millions of kulaks, middle-class farmers, had to die before the state could collectivize their land. Yet, today, food remains the Soviet Union's greatest basic want.

Dilemma that the ruler of any Communist country faces is simply this:

Try to give the people more of the good things of life, and they want more and more, they work less and less. They get independent, restive, begin to think of their rulers as weaklings. Finally they revolt.

Give them nothing, and they lose hope. They work only to live—no more. If they see a chance to get out of their prison, they try to escape.

Millions already are in Soviet slave camps. Among people outside the camps, it seems probable that more are opposed to the regime than support it. Even the Communist Party cannot give jobs or soft berths to enough people to insure a group with vested interest in keeping the party in power.

In the non-Communist world, things go differently. Democracy lets the steam come off. End result you can see: Communism is in the red today. Democracy, almost everywhere, is prospering.

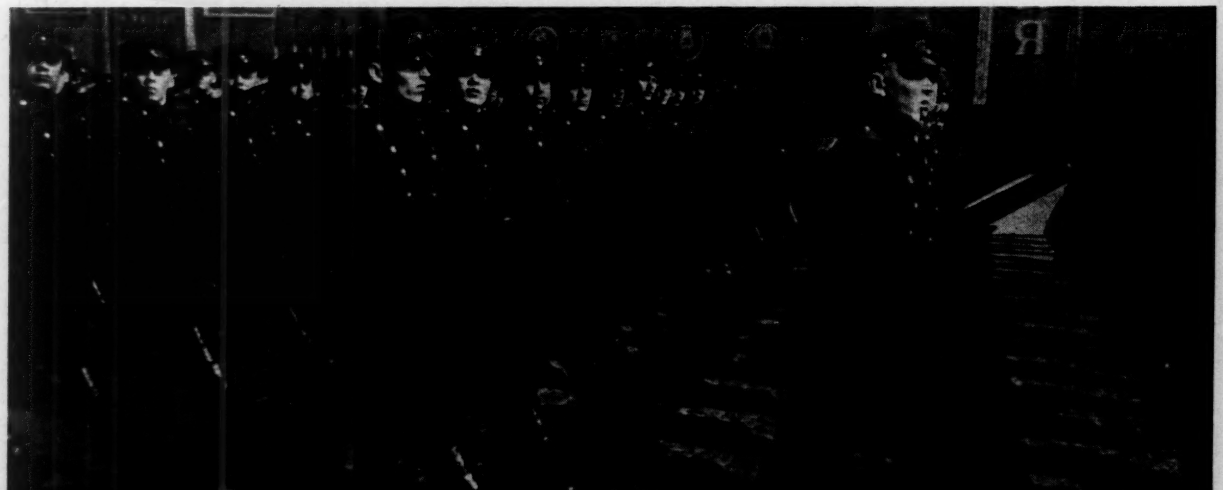
Ike's Assurances To Red Satellites

Following is an excerpt from a message delivered by President Eisenhower in support of Radio Free Europe, Feb. 8, 1955:

While we maintain our vigilance at home and abroad, we must help intensify the will for freedom in the satellite countries behind the Iron Curtain. These countries are in the Soviet back yard; and only so long as their people are reminded that the outside world has not forgotten them—only that long do they remain as potential deterrents to Soviet aggression.

The great majority of the 70 million captives in these satellite countries have known liberty in the past. They now need our constant friendship and help if they are to believe in their future.

For further information on the situation in Russia, see how the Soviet bloc is losing the economic race with the West, page 23; an account of Russia's experiment in raising corn-fed hogs to solve a food shortage, page 28; close-up views of Russia's new bosses, page 58; an inside view of Russia by a former Soviet secret agent who predicted the latest coup, page 70; statements about U. S. by Khrushchev and Marshal Zhukov, page 75; President Eisenhower's personal views of Zhukov, page 88.



—Sovfoto

RUSSIA'S TROOPS: No Soviet regime can be sure of their unswerving loyalty

RUSSIA LOSING IN RACE WITH WEST

In 15 Years, Reds Will Be Even Further Behind

Now you get a complete official report on how the Soviet bloc is doing in its economic race with the West.

Which side is winning? The West, by far, and the balance is not to shift in years ahead.

In the Communist empire, nearly everything is scarce. War output gets first call. Consumers are left out. The whole system is in trouble.

An official study of the strength of the Soviet Union and her satellites compared with the United States and her allies reaches these conclusions:

- Non-Communist nations today hold a wide advantage over Communist nations in economic strength, standards of living and warmaking ability.
- The strength of the non-Communist nations is growing faster than that of the Communist bloc.
- Looking ahead, the non-Communist part of the world, during the next 15 years, will continue to increase its superiority over the Communist nations in living standards and warmaking potential.

These basic conclusions are the product of a study made by order of Congress. The study was carried out by the Legislative Reference Service of the Library of Congress. It deals only with available economic data. It does not deal with factors of political strength or weakness of the kind now showing in the Soviet Union.

Where Communism is in trouble. Shortage of food, in this study, is found to be a basic weakness within the Communist empire. Recent reports by high Soviet officials attest the soundness of this conclusion.

Transportation is pointed up as another weakness. Raw materials are located far from the centers of population, far from the industries that use these materials. And transport facilities, though improving, remain inadequate and behind the times.

Living standards of people within the Soviet empire are found to be extremely low compared with standards of the West. And nations in this empire appear incapable of much improvement under the Soviet system.

Communism as a system, on the face of the record, is not able to compete with the freer economic systems of the non-Communist countries. That weakness is emphasized by facts and figures all through the exhaustive study.

The conclusions outlined by those who made the study provide a new basis for understanding the relative strength of the two worlds. This study omits Communist China, because that area provides no strength to the Communist world in an economic way.

Communist nations covered are the Soviet Union itself and the satellites of Eastern Europe. Comparisons are drawn with the nations of Western Europe and the United States.

Trouble in industry. The central fact produced by the study is this: The Soviet system, in the years since World War II, has achieved a considerable build-up for another war—but at the expense of the ordinary consumer.

Figures on total output show impressive gains. Yet people behind the Iron Curtain live no better now than they lived before the war. What this means is that men and materials have been massed in war plants, the heavy-goods industries. Consumer industries have been left out.

Says the report to Congress: "The West has tremendous economic power, whereas the Soviet bloc, through propaganda and unfulfillable promises, has been hiding its lesser economic strength. It is in the interest of the United States that these facts be made known throughout the world, particularly in the underdeveloped areas . . .

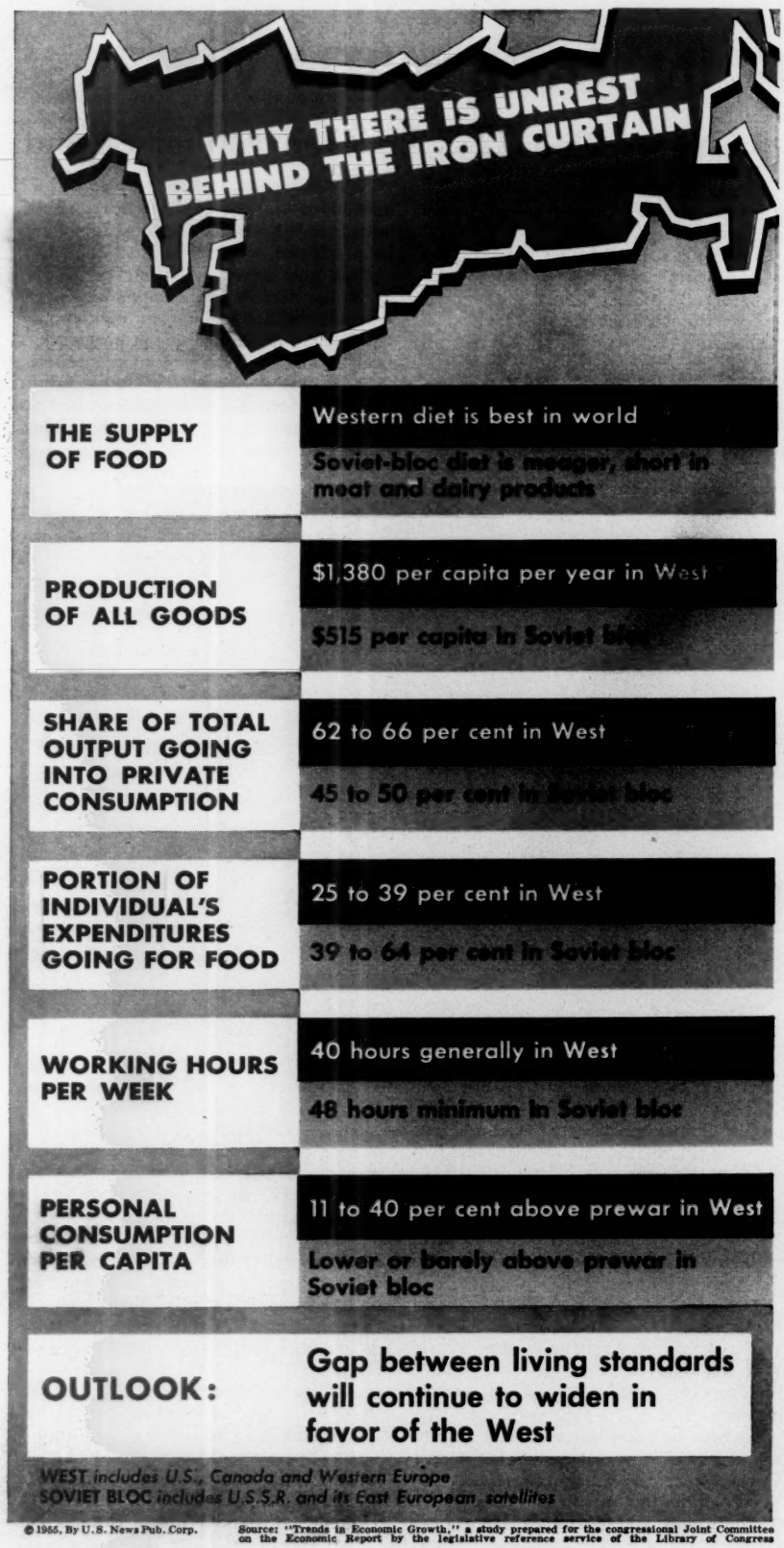
—Sovfoto

THE SOVIET FACTORY WORKER
His productivity isn't rising much

"The Communist bloc will continue intense efforts to increase its output, especially heavy industry, with little regard for human costs. In view of this fact, appreciation of the substantial successes of the United States and independent Europe, acting in close co-operation, in achieving both industrial expansion and better living, is essential. Such co-operation, continued in the future, can serve as a basic weapon in the East-West struggle."

Available figures indicate that, in the five years after 1948, the Soviet Union increased total production more rapidly—on a percentage basis—than did the U. S. The satellites lag far behind.

The West, with Canada added to the United States and Western Europe, con-


WHY THERE IS UNREST BEHIND THE IRON CURTAIN
THE SUPPLY OF FOOD
Western diet is best in world
Soviet-bloc diet is meager, short in meat and dairy products
PRODUCTION OF ALL GOODS
$1,380 per capita per year in West
$515 per capita in Soviet bloc
SHARE OF TOTAL OUTPUT GOING INTO PRIVATE CONSUMPTION
62 to 66 per cent in West
45 to 50 per cent in Soviet bloc
PORTION OF INDIVIDUAL'S EXPENDITURES GOING FOR FOOD
25 to 39 per cent in West
39 to 64 per cent in Soviet bloc
WORKING HOURS PER WEEK
40 hours generally in West
48 hours minimum in Soviet bloc
PERSONAL CONSUMPTION PER CAPITA
11 to 40 per cent above prewar in West
Lower or barely above prewar in Soviet bloc
OUTLOOK:
Gap between living standards will continue to widen in favor of the West
WEST includes U.S., Canada and Western Europe
SOVIET BLOC includes U.S.S.R. and its East European satellites

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Source: "Trends in Economic Growth," a study prepared for the congressional Joint Committee on the Economic Report by the legislative reference service of the Library of Congress

tinues to produce four and one half times as much as the Soviet bloc.

Looking ahead, the study reaches this conclusion: "An examination of the various factors of production (growth of labor input, agriculture, housing, etc.) in the United States and in the Soviet Union today gives strong grounds for expecting that the absolute gap in the size of the two economies will widen over the next two decades, although the rate of growth in the Soviet Union might be somewhat higher than the rate of growth in the United States."

Trouble with the satellites. Despite forced labor and other pressures, the Russians have failed to make their system work in the captive countries. Production lags. Food remains acutely scarce. Peasants have been rooted out of the farms and pushed into heavy industry, at wages that barely sustain life. Congress is told this:

"It did not take long, after they fell into the Soviet orbit, for the captive countries to reach conditions of near-total labor mobilization. Skilled workers have been so scarce that even in relatively well-equipped industries production has been low, judged by Western standards . . .

"Because of the manner in which the sovietized governments report unemployment, it appears that there is no such phenomenon in any of those countries. The fact seems to be, however, that absenteeism, together with work-time effort spent in seeking the necessities of life through a maze of bureaucracy, contributes to a sort of 'planned economy' underemployment. . . ."

Why all the trouble in satellite countries? Many reasons are noted, not the least of which is the "tremendous drain of their resources by the Soviet Union." To quote the report again:

"The gain from captive tribute to the Soviet Union has been substantial, particularly in terms of war-sustaining resources. But this gain has been offset, in part, by the extra military and other security efforts on the part of the Soviet Union needed to prevent revolt in those countries."

The researchers offer this significant comment: "The captive countries, in the long term, may prove to be an economic drag upon the Soviet Union."

Trouble with consumers. The fundamental problem of the Soviet world is that there simply is not enough of everything to go around.

In the West, food is abundant. Free-enterprise farming provides all that people can eat, with a surplus to spare. In the East, millions get less than an adequate diet. Collective farming, as a system, is falling down.

(Continued on page 26)

HOW WEST COMPARES WITH SOVIET BLOC IN ECONOMIC STRENGTH — AND GROWTH

WEST—United States and Western Europe

SOVIET BLOC—U.S.S.R. and East European satellites only

	NOW	TREND	OUTLOOK FOR 1970
TOTAL ANNUAL PRODUCTION	West*—$690 billion Soviet—$155 billion	West's production growing about twice as fast	West will be even further ahead
AGRICULTURAL PRODUCTION	West—abundance Soviet—food shortage	Expansion rapid in West, slow in Soviet	Western diet will be increasingly better
POPULATION	West—441 million Soviet—304 million	West's population has been increasing faster	West will hold numerical edge
LABOR FORCE	West—192 million Soviet—about 160 million	West's working-age population growing faster	West will still be ahead
OUTPUT PER WORKER	Many times larger in the West	Efficiency increasing faster in West	Western superiority will be greater
RAW MATERIALS	West better supplied in most materials	Variable; reserves of most materials adequate	Neither side will feel serious pinch
ANNUAL STEEL PRODUCTION	West—165 million tons Soviet—50 million tons	Western production going up faster	West will have a bigger lead
ANNUAL COAL PRODUCTION	West—926 million tons Soviet—361 million tons	Soviet production rising faster	West's lead will still be huge
ANNUAL ELECTRIC-POWER PRODUCTION	West—815 billion kilowatt-hours; Soviet—193 billion	Soviet expanding at greater rate	West will still have far more
ANNUAL PETROLEUM PRODUCTION	West—323 million tons Soviet—68 million tons	West finding more oil reserves	West's advantage will be greater
TRANSPORTATION FACILITIES	West far ahead of Soviet bloc in all types	West still gaining on Soviet bloc	West will be even better off

*This figure also includes Canada

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Source: "Trends in Economic Growth," a study prepared for the congressional Joint Committee on the Economic Report by the legislative reference service of the Library of Congress

That is the record, despite pressures to step up farm production in Communist countries. Farm land, much of it, is poor. Farming methods and equipment are antiquated. Russia has only one tenth as many tractors as the United States, relative to the area under cultivation.

In Russia and the satellites, at least one half the total population works on farms, with more women than men in the fields. By contrast, the U. S. farm population is only 14 per cent of the total, yet this 14 per cent produces more food and fiber than the country can consume.

It is the same story in other types of consumer goods. Per capita output of goods of all kinds in the West is more than two and one half times what it is in the Soviet bloc. The average American spends 27 per cent of his income for food. The average Russian spends 50 per cent.

To show how the two areas compare in higher-priced goods for private use: Russia's goal for 1955 is to turn out 477,000 cars and trucks, and many of those will be for Government use. U. S. turns out about 7 million a year. Western Europe alone produces three times as many as the Soviet bloc.

Trouble with transportation. The Soviet Union, to an extent greater than almost any other country, is dependent upon transportation. No other major country is required to do so much hauling per unit of national output. That necessity arises out of the great distances between sources of supply and processing centers.

The Russian system relies very largely upon railroads. About 85 per cent of the country's freight is hauled by rail. By contrast, railroads account for about 50 per cent in U. S.

Even so, the Communist empire, including the Soviet Union itself, has failed to keep up with the times in developing and modernizing the railroads. The Soviet bloc has only about half as many locomotives as the West. England alone, with only a small island to serve, has more freight cars than does Russia.

With limited trackage, the rail lines of the Soviet Union have become crowded with light, slow trains. Locomotives are old-fashioned. Only about 3 per cent are electric or Diesel-electric.

Reporting on the use of motor vehicles, the study says this:

"In Western Europe, as in the United States, motor vehicles have taken over a large proportion of the transport load. In the Soviet Union, on the other hand, road traffic is almost entirely confined to short hauls. The tonnage lifted is great, but total ton-mileage accounts for only 3 per cent of the total for all major carriers. Highway transportation is also of minor importance in the captive countries.

—Arlt in the New York Herald Tribune

"MOVE OVER!"

. . . a highly mobilized economy

"Soviet roads are highly susceptible to seasonal hazards. Prewar estimates put the proportion of hard-surfaced roads at not more than 5 per cent of the total. Western Europe has extensive systems of all-weather roads and road densities which, in many countries, exceed that of the United States . . ."

The Soviet bloc is found "notably weak" in shipping. Russia lacks ports for international trade. Inland waterways during much of the year are icebound.

Trouble elsewhere. Many other weaknesses show up in the Soviet bloc. The study prepared for Congress gives Russia credit for a "remarkable job" of stepping up steel capacity. From 23 million tons of steel production in 1949, the Soviet Union went up to 38 million in 1953. And it is conceded that the goal of 60 million by 1960 may be achieved.

—Sovfoto

WHEN RUSSIANS SHOP . . .

. . . half of income goes for food

This remains small by Western standards. U. S. alone turns out more than 100 million tons of steel a year, and total output of the Western bloc in 1953 was 165 million. This was more than three times the output of the Soviet Union and its satellites.

Steel expansion has been accomplished at the expense of other Soviet industry and under severe handicaps. As in the past, the Russians hereafter "must contend not only with overland haulage but the typical separation by great distances between ore and coal." The study concludes that the West will retain a "sizable lead."

In output of electric power, the Soviet Union is far behind the West, although Soviet power facilities are being expanded rapidly.

Manpower is adequate in both East and West. The important thing here is not the number of workers, but how those workers are used. Because of better training, better conditions and better equipment, productivity in the West is vastly higher than in the Soviet bloc.

Russia still suffers from what the study calls a "low quotient of machine-power per worker." Productivity is increasing hardly at all. "The United States, on the other hand," says the study, "has increased the productivity of American industrial workers by half in the past 15 years, and there is no apparent reason why this trend should not continue."

War strength. What does this overwhelming superiority of the West mean in terms of the capacity to make war? The study has an answer:

"Superiority in economic strength and economic growth are desirable ends in themselves, but they do not assure political and military security. In fact, an economy that is already largely mobilized for war can operate with great effectiveness, and for some time, against a considerably stronger economy that is not so mobilized.

"The present level of economic mobilization, in relation to natural resources, is greater in the Soviet bloc than in the United States, and especially than in Western Europe. For this reason, the Soviet bloc can bring its full military strength into action more rapidly than can the West. For the same reason, and because the total resources of the West are greater, the West can ultimately mobilize overwhelmingly greater economic strength [for war use] than can the Soviet Union, given enough time to do so."

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KHRUSHCHEV TRIES THE IOWA WAY

Reds' New Boss Turns to Corn-Hog System in Food Crisis

Constant food shortages are behind the big upheavals in Russia. To do something about it, the new Soviet leaders have another plan.

"Collectivization," the first solution, failed to produce the desired results. So did "relocation," opening up Siberia. Last year's plan for more cattle fared no better.

Now Communist bosses are going to try hogs. Russia's new top man, Khrushchev, proposes a "corn-hog belt," patterned on the U. S. Midwest, to solve all problems.

U. S. farm experts who know Russia say the new plan has no better chance than its predecessors, however. Reason: Russia's climate.

People of the Soviet Union seem to be tiring of a diet of grain porridge, beet soup, black bread and potatoes.

This simple fact is having more to do with the unrest and political weakness of Russia than all of the theories of diplomats and all of the wordy diatribes of Soviet politicians.

Food is short all through the Communist empire. A shortage of food makes people unhappy. And unhappy people can be kept in line only by strong-arm methods, promises of better things to come or military diversions.

The new leaders of the Soviet Union once again are promising more and better food. To provide that food they are turning hopefully to the lowly hog.

Nikita S. Khrushchev, the new "iron man" of Communism, has announced a plan that will give the Russians more pork by sharply increasing production of corn to be fed to hogs. He is holding out the hope that a duplicate of the corn-hog belt of Iowa, Illinois and Indiana can be built up in the farming areas of the Soviet Union.

It was only a year ago that Khrushchev had a grandiose plan to put more meat in Russian butcher shops by expanding the number of cattle. The chance that the Communist peasants will succeed any better with a corn-hog plan than they have with the cattle plan is regarded by American farm experts as practically zero.

The wrong formula. "Communism, collectivism and livestock raising simply do not mix."

That statement is set down as an axiom by Americans who are best informed on Russian agriculture. The basis for the axiom that Communism will always be plagued with a food problem rests upon a number of factors. The principal one of these factors is human nature.

"You cannot put farming on an eight-hour shift and expect to raise livestock successfully," says an American farm specialist who spent a year in Russia when the Soviets first turned to collective farming. "Try to turn farming into factory work and you might grow grain, but you cannot develop a livestock economy."

The long-term effect of the Communist effort to collectivize agriculture can be seen in Russia. In that country, the number of livestock on farms is 6 million smaller than it was back in 1928. During that same period the population of the Soviet Union has grown by 60 million.

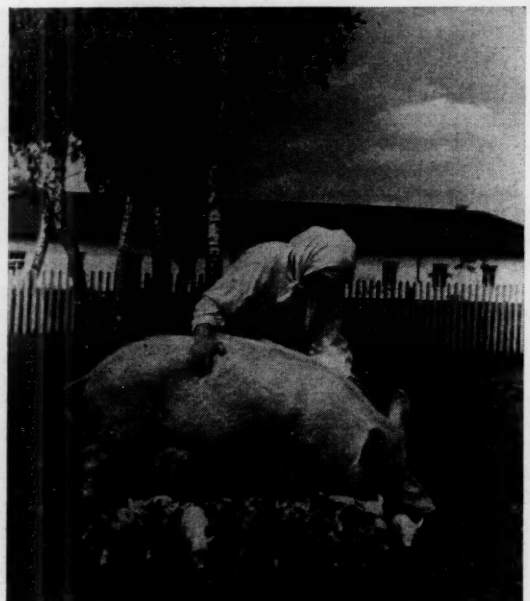
Thus, while Americans were eating 155 pounds of meat per person on the average last year, Soviet citizens were getting considerably less than the 40 pounds per person which was available in 1928.

The failure of Khrushchev's big plan for more beef was tacitly admitted in his January 25 report to the Central Committee of the Communist Party. In the first part of the report he boasted of a 1.9-million-head increase in cattle. But later in the report he scolded the peasants for their failures in animal husbandry, pointing out that, while cattle numbers were increasing, the loss of live weight on the cattle amounted to 42,000 tons. The cattle, in other words, were starved.

Now Khrushchev is exhorting the peasants to turn to hogs to produce the additional meat needed to upgrade Soviet diets. But Americans familiar with Russian farming methods can see no more possibility of success in expanding pork production than was achieved in the plan for more beef.

About the only thing correct about the Soviet boss's plan is the choice of hogs as the best kind of livestock for rapid expansion. The prolific sow takes less than four months from breeding to farrowing and produces a litter, whereas the cow takes nine and a half months from breeding to calving, and seldom has twins. Beyond this fact of nature, the Khrushchev scheme holds little promise.

A Russian corn belt? Regarded as unusually impractical is the Khrushchev suggestion that Soviet farmers emulate Americans in



—Sovfoto

TO GROW MORE HOGS . . .
. . . Russia needs corn-growing weather

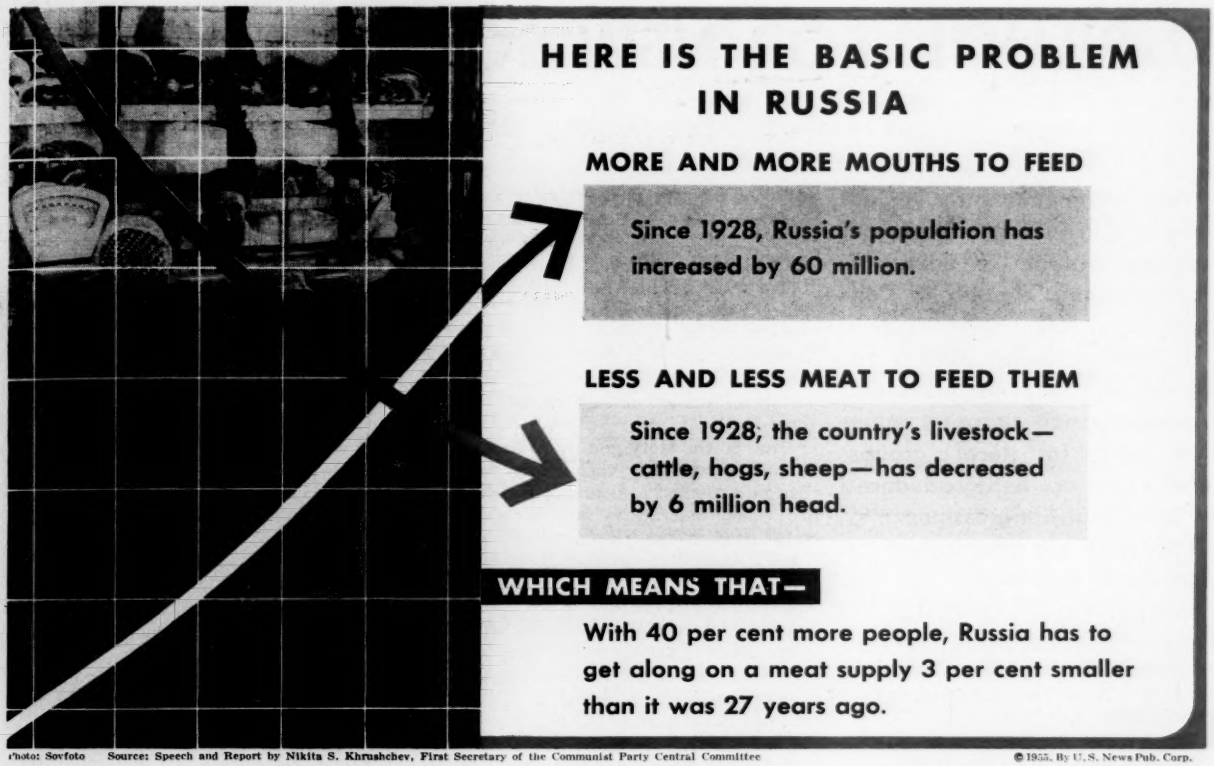

HERE IS THE BASIC PROBLEM IN RUSSIA
MORE AND MORE MOUTHS TO FEED
Since 1928, Russia's population has increased by 60 million.
LESS AND LESS MEAT TO FEED THEM
Since 1928, the country's livestock—cattle, hogs, sheep—has decreased by 6 million head.
WHICH MEANS THAT—
With 40 per cent more people, Russia has to get along on a meat supply 3 per cent smaller than it was 27 years ago.

Photo: Sovfoto Source: Speech and Report by Nikita S. Khrushchev, First Secretary of the Communist Party Central Committee

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planting large acreages to corn for production of livestock feed. He set a goal of 70 million acres, about 15 million acres more than normal U. S. corn acreage.

But the hard fact is that only a small part of Russia's farming area is adapted to corn production. A U. S. farm expert who has traveled extensively in Russia says that the best the Soviets can hope for is an increase of 2 or 3 million acres over present corn plantings of less than 10 million acres.

The basic problem is too little rainfall and too short a growing season. Very few of Russia's farm lands have the kind of climate that produces the hot, humid weather of midsummer in Iowa when you can literally "hear the corn grow." Annual rainfall in the U. S. corn belt averages 30 to 40 inches. Few areas in Russia get this much.

Corn also needs a relatively long growing season. The best-producing U. S. hybrid varieties require around 120 days from planting to harvesting to produce top-grade grain, the kind that fattens hogs in a hurry.

Russia does have its "Fertile Triangle," but the southern tip of it, at Odessa on the Black Sea, is in the same latitude as Duluth, Minn. This heartland of Soviet agriculture does not compare to the American corn belt. Instead, it is similar to the spring-wheat belt of the Dakotas and the Prairie Provinces of Canada.

Livestock ignore decrees. Ever since the collectivization of Russian agriculture began in 1928, the refusal of livestock to thrive on decrees has embarrassed the Kremlin. Collective methods just don't give meat-producing animals the kind of "loving care" which any good American herdsman knows is so important.

The successful Iowa hog farmer will leave a warm bed at 3 o'clock in the morning to play nursemaid to a temperamental sow about to give birth to a litter of pigs. He knows that every pig he saves at farrowing time will put dollars in his pocket at market time.

But the worker on a collective farm doesn't have the incentive of extra rubles to get him out to the hog shed in the middle of the night. Furthermore, many of the workers have been recruited from the cities and wouldn't know how to take care of the sow anyway.

One American swine specialist who once was hired to help the Russians increase hog production found the task impossible. The Soviet farm planners, unaware of disease problems, tried to put the job on a "factory" basis with large numbers of hogs concentrated. As a result, epidemics repeatedly wiped out large herds.

The Russians, he reports, have little concept of the need to match feed supplies with the number of hogs to be fattened. Resulting feed shortages kept hundreds of thousands of hogs from ever reaching marketable weight.

Bonuses for peasants? From time to time, bonus plans have been introduced to reward the better workers and increase production. Sometimes the scheme is to give each peasant a bigger plot of land on which to raise food for sale on the market. This works fine for the peasant who prospers by concentrating on his own plot. But it doesn't inspire him to greater efforts in the collective fields, so he is required to deliver a bigger cut of the produce from his plot to the state. Finally, the requirement is raised so high that there is no bonus for the peasant and he relaxes his efforts.

Another bonus plan is to reward livestock workers with cash payments for increasing production of meat and dairy products. This works fine, for a time. But it doesn't take long for the industrious worker to become noticeably more prosperous than the lazy one. This situation smacks of decadent capitalism and must therefore be terminated.

Agriculture may well be the Achilles' heel—the possibly fatal weak spot—of the Soviet economy. One agricultural expert, cautioning against American overemphasis of this Communist weakness, points out that Achilles could still walk on his heel. But the weakness could mean the downfall of Russia, even as Achilles, in an all-out fight.

$7 BILLION FOR NEW SCHOOLS

Ike Makes Offer, Congress Has Last Word

Your community may yet get some help in ending its classroom shortage, out of the dozens of plans churning around in Congress.

A 7-billion-dollar plan is advanced by the Administration, providing credit supports rather than cash for local groups. Other plans are being advanced by individual Congressmen.

Following is a close look at the plan Ike is backing.

President Eisenhower is trying to throw the weight of the Federal Government behind a 7-billion-dollar program to bolster the nation's sagging school plant.

The move by the President is aimed at relieving a situation which, experts say, is growing more desperate every day. Half the schools of the nation are overcrowded. A million pupils are being taught in makeshift quarters—former barracks, garages, abandoned laundries, churches, hallways, odd corners, even a dog kennel in one State. And every 15 minutes enough children are born to fill a schoolroom.

What happened was this: During the war years, there was a letup in school building. Steel for schools went into arms. Old buildings got older. There were few new ones to take their place. The birth rate rose. Other expenses crowded in for a larger share of the tax dollar. Where 16 cents of each local tax dollar went for education in 1939, on an average, only 8 cents now is going to schools. There is an undersupply of trained talent and a shortage of both teachers and schools.

The States are falling further behind in their race. In 1952, there was a need for 312,000 classrooms, costing 10.6 billion dollars. Since then, the States have put 4 billion into buildings. And still the shortage has risen to 370,000 classrooms, costing between 10 and 12 billion to build. Neither the States nor the local communities can raise this much money.

Dallas County in Texas has enough children reaching the age of 6 each month to fill a new schoolhouse. Milwaukee, facing a prospective 30 per cent increase in enrollments, can borrow only enough money to take care of three fourths of the increase. Louisville is using 8 buildings that are over 100 years old, 12 that are more than 75 years old. Jefferson County, one of the richest in Kentucky, has exhausted its revenue for the next 20 years by borrowing and still needs 11 million dollars for new buildings.

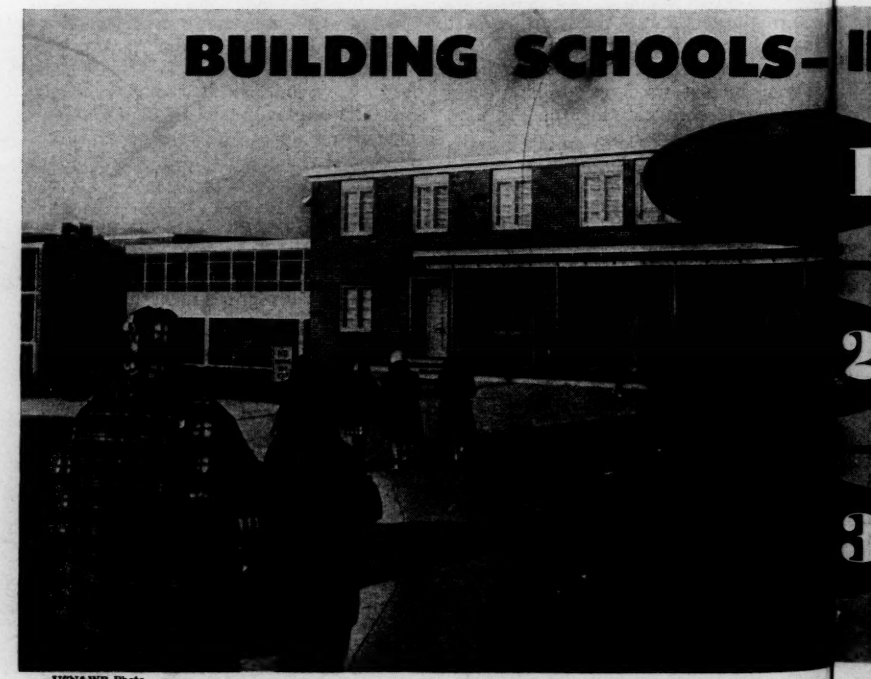
And so the story goes. Population and school experts say the steady increase can be expected to continue for the next 10 years, that States and communities must strain to meet the needs. Five of 43 States studied report that they can provide less than 20 per cent of what they need for buildings now. Nine States can provide less than 30 per cent of what they need. Fourteen States can scare up less than half of the funds needed.

Federal gifts: blocked. It is this situation that stirred the Administration to find a way to meet the needs. Already, the Democrats in Congress were pressing for action on a measure that would provide outright grants to the States—on a basis of school population, of per capita incomes, an admixture of both, or on a straight matching basis. How the job was to be done was the big problem that seemed to stump the legislators.

Objections arose to all of these plans. Hearings were piled upon hearings. But still the school problem grew while Congress wrangled. Members from big income States did not want to give an unequal amount to poorer States. Big States had problems of their own. Some Catholics, with parochial schools barred from participating, were cool toward the plans. And a North-South feud over segregated schools aggravated matters.

On top of these difficulties was a public-debt-limit problem. As a temporary measure, the federal debt limit was raised in the last Congress. It drops back to 275 billion dollars next June 30. Senator Harry F. Byrd (Dem.), of Virginia, chairman of the Senate Finance Committee, which handles such matters, is strongly opposed to raising the limit again. And the debt stands so close to the line that any big-scale appropriation for schools would send it over.

The new idea: credit. The plan brought out by President Eisenhower is designed to skirt most of the past objections. It does not give money to the States, even on a matching basis, except on a small scale. It simply puts the credit



—USN&WR Photo

of the Federal Government back of that of the States. This does not call for any big appropriation that would cross the debt limit. It is designed to pry loose money from other places to be used for building schools, rather than take money out of the Treasury.

The President's plan embraces three major proposals. The first would use 750 million dollars during the next three years to buy local school bonds which communities are unable to sell at "reasonable rates" of interest. The White House defined "reasonable" as a rate not in excess of 3⅛ per cent.

Another of the proposals would provide 200 million dollars of federal grants-in-aid for communities too poor to borrow or rent school buildings. Certain other help would be given to the States to help administer the program.

The mainspring of the President's plan, however, is the proposal to raise 6 billion dollars during the next three years through specially created State school-building agencies. These agencies, pooling the borrowing power of the States and communities, and backed by the Federal Government, would borrow money on bonds and turn this money into school buildings to be rented to the local communities.

In this way, the local community gets a school without putting up its own money, or borrowing on bond issues. For many localities, which already have borrowed as much as they can under State and local debt limitations, this offers a way to get school buildings. The community simply rents a school building that is built by the State agency, pays rent for 20 to 40 years, and at the end of that time takes title to the building. Its rent has paid for the structure.

The State school-building agency works in co-operation with the school officials in the State. It issues its bonds through the regular investment channels. It constructs the schools. And it fixes the rents on the structures so as to cover the cost of the building, the cost of the bonds and of administering the plan, plus a payment to the reserve fund. In the long run, the communities would continue to pay for their schools. The aid given by the Federal Government would be paid off in rentals.

Tested by States. At least three States already have used, on a smaller scale, the plan that the President proposes to put into effect. In Pennsylvania, 85 per cent of the school-construction work has been turned over to State or local building authorities. Georgia and Maine are using a similar plan. Indiana has set up such an agency, which is inoperative up to this time because of court action.

The Pennsylvania authorities sell bonds, build schools and lease them to the local communities for 20, 30 or 40 years. The rental goes to pay off the bonds. The State chips in to help some of the poor communities pay their rent and up to this time has rolled up an annual bill of 12.7 million dollars.

The Georgia system is much like that used in Pennsylvania. So is that in Maine. In Indiana, local districts have set up holding companies to sell bonds, build schools and rent them to the communities.

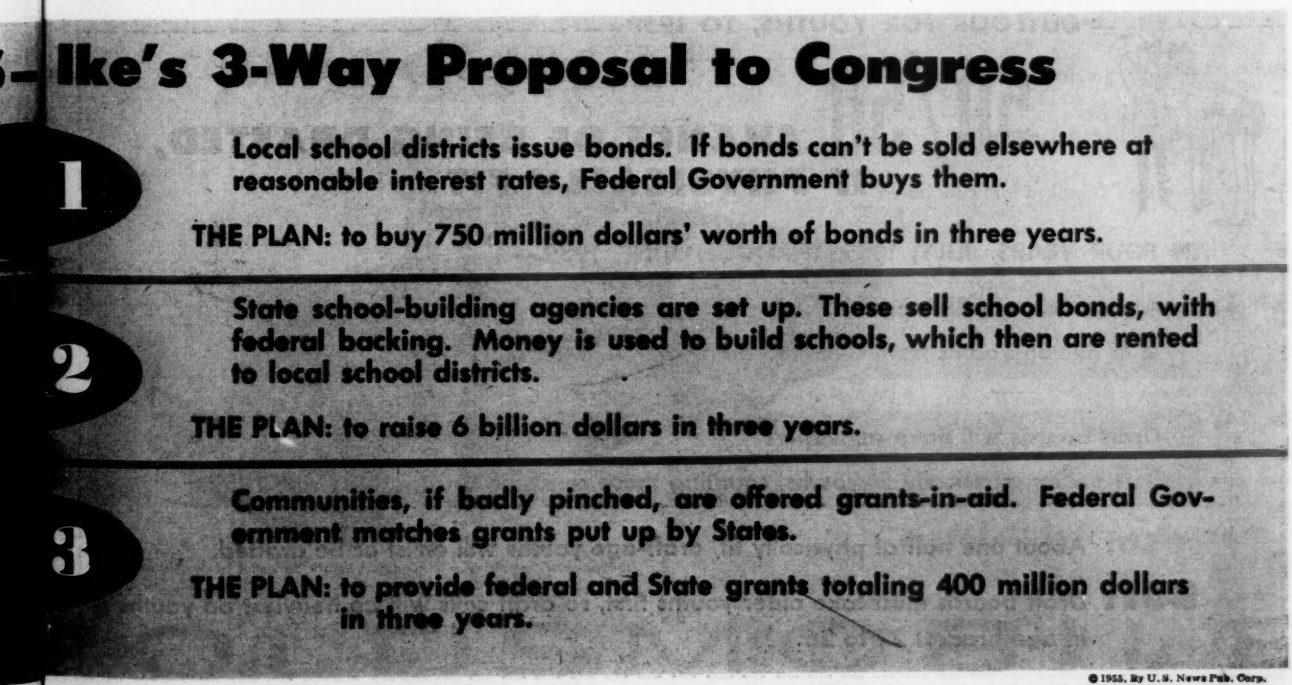
In presenting his plan, President Eisenhower specified that it is to be regarded as a temporary system designed to meet an emergency. Long-range plans are expected by him to be developed later.

The battle ahead. There are hurdles at many points—in the Democratic-controlled Congress, in State legislatures and in possible State constitutional changes. Senator Lister Hill (Dem.), of Alabama, chairman of the Senate Labor and Education Committee, favors outright grants to the States on a matching basis, with 1 billion dollars to be provided during the next two years. There is no agreement, however, upon any formula for apportioning the money among the States.

In the face of the urgent conditions that have been pictured before congressional committees, however, there is a strong demand among members for action of some sort. The word is being passed quietly around on Capitol Hill that any move to ban the use of the money in Southern States that are trying to keep segregated schools would mean the death of federal aid. It is hoped that this will keep down the fighting.

The presidential plan may ease the way around this problem. It simply helps the States to borrow money. It does not give the money to the States. The final responsibility still rests upon the local communities.

Full text of the President's message on his school plan—page 78.


Ike's 3-Way Proposal to Congress
1
Local school districts issue bonds. If bonds can't be sold elsewhere at reasonable interest rates, Federal Government buys them.
THE PLAN: to buy 750 million dollars' worth of bonds in three years.
2
State school-building agencies are set up. These sell school bonds, with federal backing. Money is used to build schools, which then are rented to local school districts.
THE PLAN: to raise 6 billion dollars in three years.
3
Communities, if badly pinched, are offered grants-in-aid. Federal Government matches grants put up by States.
THE PLAN: to provide federal and State grants totaling 400 million dollars in three years.

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DRAFT TO GO ON —WHO'LL BE CALLED

Most Youths, but There'll Be Stays for College, Farms, Trades

Military draft, due to expire next June, is going to be extended until 1959. But it will not be quite the same.

Changes in draft rules will give a break to National Guardsmen; make it easier to defer farmers; help men over 26 who have been once found unfit.

Some youths will escape any service because of decreased demands from the armed forces.

Youths of this country now are notified that, beyond any reasonable doubt, the military draft is to be a part of their lives for at least four more years. In the first test of sentiment in Congress, an extension of the draft until July, 1959, has been overwhelmingly approved.

The test came in the House, which voted 394 to 4 to keep the draft alive after military leaders warned it was the only way to maintain armed forces of nearly 3 million men. The same basic measure is expected to win Senate approval fairly soon.

This extended draft is to have two sides, as the public will see it operating. One is to be the easy side of the draft. In that light will appear the continued deferments for college students, for those in the Reserve Officers Training Corps, for youths in the National Guard, for hardship cases, for some young workers and farmers.

All those types of deferments are to be available under the new law. The National Guard deferment, under a House-approved change, will become much more attractive. Under this suggested rule, a youth will become draft exempt if he enlists in the Guard before he is 18½ years old and serves until he is 26.

Another House-approved amendment would make it somewhat easier for a local draft board to find that a farm worker is deferrable.

Physical rejects. Other things will make the new law look like an easy draft. Physical and mental tests will disqualify nearly one youth out of three, and the continued presence of these youths in their home communities, most of them with no obvious defects, will heighten the public's impression that the draft is full of loopholes.

At the same time, because the supply of available youths is rising gradually in relation to the armed forces' demands, there will be an increasing number of youths who never will get so far as to be physically examined for the draft. Eventually, unless the draft is again extended beyond 1959, some of these youths will become over age before they are ever called upon to serve.

The chart on this page shows that part of the draft story. The armed forces will need about 2.8 million new men in the four years to end July 1, 1959. The draft boards will have about 5.5 million able-bodied youths available. On a strictly arithmetical basis, only one youth of every two will have to go into service, as a volunteer or draftee, to meet manpower needs.

(Continued on page 35)

OUTLOOK FOR YOUTHS, TO 1959

50/50 CHANCE OF BEING DRAFTED, IF PHYSICALLY FIT

IN FOUR YEARS, JULY, 1955, THROUGH JUNE, 1959—

Armed Forces will need:
2.8 million youths from civil life. Many will volunteer.

Draft boards will have available:
5.5 million physically fit youths. Many are deferred.

SO: About one half of physically fit, draft-age youths will enlist or be drafted.

BUT: Draft boards must take older youths first, so draft calls will be heaviest on youths in age bracket 22 to 26.

Basic Data: Defense Department, Bureau of Labor Statistics, Selective Service

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OLDS SHOWS ITS COLORS... and you can take your choice!

Solid hues! Ninety-Eight DeLuxe Holiday Coupé in Panama Blue.

Sharp Contrasts! "88" Holiday Coupé in Shell Beige and Coral.

A General Motors Value.

Daring . . . dramatic . . . distinctive —it's Oldsmobile's "flying color" styling for 1955! Colors range from soft and quiet to dazzling and brilliant. Treatments go from conservative solids to stunning contrasts! Just think—more than 100 combinations to choose from! And when you command that new "Rocket" 202 Engine you'll know . . . this is your year to *go ahead with Oldsmobile!*

Subtle harmony! Super "88" Holiday Coupé in Glen Green and Grove Green.

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Built for the U.S. Air Force, Convair's F-102 interceptor is delta-winged and jet-powered, designed for the men who are *on guard for America's air defense.*

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Engineering to the Nth power

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A DIVISION OF GENERAL DYNAMICS CORPORATION

Wear the wings of the U.S. Air Force. If you are 19 to 26, you may qualify for cadet training. Write to: Aviation Cadet, Headquarters United States Air Force, Washington 25, D.C.

That is the easy aspect of the draft.

Yet this same draft will have its harsh side, too.

Continued uncertainties. Every youth who has to register under this draft—and that will include every boy who passed his fourteenth birthday by last January 1—will feel some of the draft's uncertainties. He and his family will puzzle over what is the best course to pursue through the tangle of the draft's rules, deferments and deadlines.

Also, many a young man apparently is to find that the draft will pass him by in his early years, only to catch him and force him into service after he has a job, a wife, perhaps children. The draft law that Congress is extending is flexible, but it gets very tight when, and if, an individual's number finally comes up before his draft board.

—Department of Defense

LIFE IN AN ARMY CAMP
. . . for 1 of every 2 young men

Main features. No change is in sight for the main features of the draft.

Draft-age bracket is to remain the same. A youth will register with his local board on his eighteenth birthday. When he reaches age 18½, he will become legally available for service. But he cannot be inducted until all older men are taken.

Term of service will continue to be 24 months. After that, a youth will have an "obligation" to be a member of the Reserve for six years. Whether that obligation will be enforced, and how, depends on what Congress does with another, separate proposal for a compulsory Reserve.

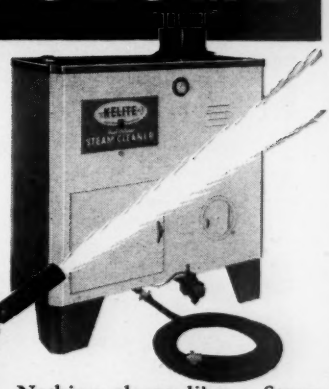
Physical standards stay low, the same as in January, 1945, when manpower for World War II was getting scarce.

Outlook for individuals. Under the draft-extension rules that Congress is approving, individuals face these prospects:

- Youths now under age 18 can plan with assurance on starting college if that is their wish. Congress is leaving intact the rule that every youth can have one draft-free year in college if he starts before he is called for induction.
- College students can remain in college, with deferments, until they complete their courses leading to degrees, as long as they remain in the upper half of their classes. No change is suggested in college-deferment standards.
- Youths on farms may find it easier to convince their draft boards that they should be allowed to stay on the farm, if the Senate goes along with a new rule written by the House. This rule tells draft boards that they are not to consider whether a farmer's output is a surplus farm commodity, such as butter or wheat, in deciding whether he should be drafted. In the past, some draft boards were taking farmers on the ground that what they produced was not needed, and hence they were "nonessential."
- Married men without children are to get no special favors under the new draft. Neither are fathers whose children are conceived after Aug. 25, 1953. Congress is extending the dependents' allowance act, which gives families of servicemen a monthly payment, to take care of drafted men with dependents.
- Men over 26, who have been deferred at any time, apparently will continue to be draftable until age 35. However, a man who has been rejected on physical grounds will not be subject to drafting after age 26, if a new rule ap-

(Continued on page 36)

In Steam Cleaning— there's no substitute for VOLUME



Nothing cleans like a Steam Cleaner . . . because with Heat, Pressure, and Chemical you have the 3 major cleaning factors at your command. But when you have them in surging volume, as with a KELITE Steam Cleaner, what a world of difference there is! The powerful high volume stream from a KELITE Steam Cleaner quickly penetrates the toughest soil . . . forces it free.

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Food plants — refineries — automotive shops — contractors — farmers find modern steam cleaning saves hours and dollars. **Write today for free Bulletin 136 which pictures and describes the exclusive and patented features** of the KELITE. 1250 North Main Street, Los Angeles 12, California.

A marvel of durability, Kelite Pump has stainless steel ball valves — runs in oil.

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STEAM CLEANERS
Sold and serviced in 98 American Cities and 16 Countries Abroad

How to provide quiet service in a busy cafeteria!

Johns-Manville Fibretone Acoustical Units reduce disturbing noise at low cost

The owners of the L-C Cafeteria, Houston, Texas, report a 65% reduction in noise since a J-M *Variety Drilled* Fibretone Ceiling was installed. Customers dine in quiet comfort—enjoy the more attractive surroundings provided by this modern acoustical ceiling.

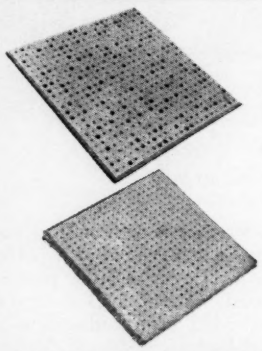
• Because distracting noise is so harmful to efficiency in any activity, practically all new building specifications include acoustical ceilings for sound absorption. However, because your present building was constructed before sound control became a science, there is no reason to be handicapped by noise. You can have a Johns-Manville Fibretone* Acoustical Ceiling quickly installed over your present ceiling.

J-M Fibretone offers an acoustical ceiling which is highly efficient, modest in cost and decorative in appearance. Uniform Drilled Fibretone consists of 12" square panels of sound-absorbing materials in which hundreds of small holes have been drilled. These holes act as "noise traps" where sound energy is dissipated.

Variety Drilled Fibretone, recently developed by Johns-Manville, offers a new and pleasing effect in acoustical ceilings. The hundreds of small holes vary in size . . . create a distinctive, appealing ceiling design.

Both Uniform and Variety Drilled Fibretone units are predecorated, can be painted and repainted, and available with flame-resistant finish.

For a complete survey by a J-M acoustical expert, or for a free book entitled "Sound Control," write Johns-Manville, Box 158, Dept. US, New York 16, N. Y. In Canada, write 565 Lakeshore Road East, Port Credit, Ontario.



Variety and Uniform Drilled Fibretone units are easily installed over new or existing construction. Hundreds of small holes drilled into the sound-absorbent panels increase acoustical efficiency.

*Reg. U. S. Pat. Off.

Johns-Manville

JOHNS-MANVILLE JM PRODUCTS

40 years of leadership in the manufacture of acoustical materials

proved by the House goes through. No opposition is anticipated.

An important point to note is that the rejection has to come at an Army induction station, not at a preinduction examination by a draft-board medical adviser. Also, a man can be called any number of times for re-examination and possible induction until he reaches age 26, under the proposed new rule.

• A youth joining the National Guard also will be able to relax, once past age 26, if the Senate agrees with another House proposal.

At present, the youth who enlists in the National Guard without prior military service remains eligible for the draft until age 35. Under the House proposal, a youth will be able to join the Guard at age 18 or 17, serve until he's 26, and then be draft exempt.

While in the National Guard, a youth must go to drills, usually one night a week, and attend summer maneuvers, usually for two weeks. Also, he's subject to call in riots, or floods, or a national emergency.

Yet, by joining the Guard, a youth will be able to meet his military obligations in eight or nine years without leaving his home town, except for Guard duty, if the House rule goes through. Service in the Guard is expected to be a popular way of serving, under this rule, and there may be considerable competition for available openings in some Guard units.

Alternatives. What a youth can do, in short, under the Draft Act that Congress is extending, is to pick his own course. For the moment, at least, Congress is passing up any plan that would put all youths into uniform as they reach a certain age.

A youth, thus, can enlist in the National Guard, or join the Army for two years, or the Navy or Air Force for four years, or the Marines for three years. He can enlist at age 17, with parents' consent, or at age 18 on his own motion. Or he can go to college, try to qualify for the Reserve Officers Training Corps. If he joins the ROTC and wins a commission, upon college graduation he becomes an officer. He also agrees to serve on active duty for two years, and he continues to be an officer, indefinitely.

Or a youth can "wait out" the draft. In that case, chances are that he will be classified and called for examination eventually. The call is not likely to come, barring war, until he's about 22 or 23. If enough volunteers come forward, in years ahead, the call may never reach the youth who is less than 20 now.

That's the outlook for the draft at this time, as Congress prepares to extend the law for another four years.

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No secretary ever dreamed she could do so much. Just ask any executive who has a Kodak Verifax Copier outside his office

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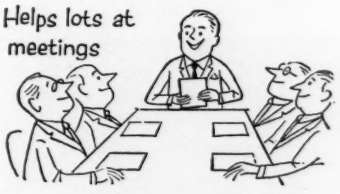

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You told your secretary to make only three carbons. You realize, now, you need more . . . but you must dash off right away. *Impossible as it sounds,* your girl can whisk out 3 Verifax copies in 1 minute flat. And they cost less than 4¢ each.

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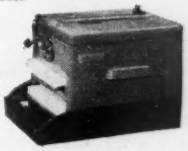

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Textiles, Railroads, Airlines Are Among the Leaders

Bigger profits and larger dividends are to flow from this year's improved business.

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But it does not follow that all companies are to share equally in 1955's prosperity.

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The stockholders in industries with bright prospects will reap above-average benefits.

In the analysis that follows you get an industry-by-industry appraisal of the outlook.

The trend of earnings in most lines of business definitely is heading upward this year. Volume of business is larger and tending to rise. The margin of profit appears to be favorable.

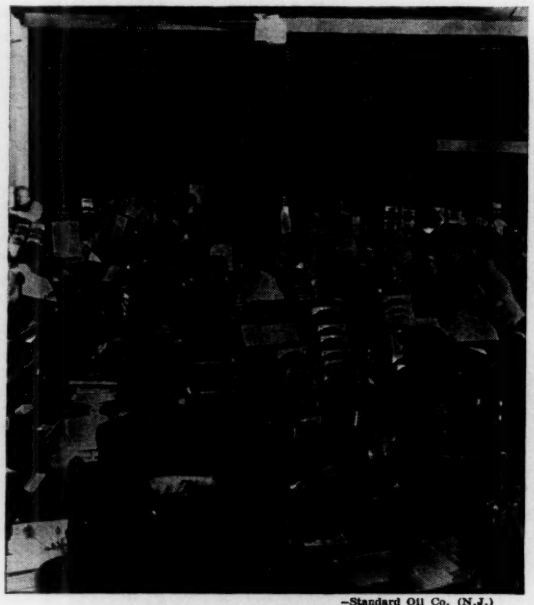
Out of this situation is going to come another year of rising dividend payments. A good many stockholders stand to benefit both from an increase in earnings and from a tendency of business firms to pay out as much of their earnings as has been the rule in recent years, and perhaps even more.

Earnings prospects, however, are not the same for all lines of activity, or for all individual companies within a generally profitable industry. This means that not all stockholders will enjoy a better year. Profitable operations still depend on the management and the company, as well as on the industry's prospects.

In general, the outlook suggests that those industries that suffered most in the 1954 business slump will gain most in the recovery that now is taking hold. But it does not always follow that the industries that have the most favorable profits outlook will also pay the largest increases in dividends.

The textile industry, for example, seems quite clearly to be emerging from the recession phase of this group's business cycle. Recovery probably will carry through 1955 and into 1956. Textile manufacturers can count on increased sales and rising profits. They may have one of the largest percentage gains of all industries. The indicated increase in earnings, however, is not likely to support any sharp increases in dividends. This industry needs to recoup losses of past years and to make capital improvements. So, while the profits outlook is highly favorable, the prospect for increased dividends from the textile industry appears to be only modest.

Airlines, on the other hand, are likely to realize sharply higher profits this year and to boost dividends substantially. This industry expanded its business during the 1954 slump and expects continued gains in 1955. Airline travel is in a strong growth trend, and leading companies in this field are expected to benefit. Stock in these companies has gained considerably in price in recent months, reflecting the upward trend in earnings.



—Standard Oil Co. (N.J.)

IN THE BROKER'S OFFICE
. . . an upward trend

The race in autos. Makers of passenger automobiles also appear to be in line for larger profits. The industry is expected to sell around 6 million cars this year, compared with 5.5 million in 1954—a strong sign of higher earnings. However, competition for this business is to be sharp, and it remains to be seen which companies in the industry will emerge the strongest. Although total profits probably will rise, dividends for the industry as a whole are likely to increase only moderately over 1954, with payments concentrated among the big producers.

The electrical-equipment industry, which produces a wide range of products from power generators to toasters, probably will boost earnings by about 20 per cent in 1955. That's the prospect for the industry as a whole, but the profit outlook varies for different companies.

Firms that make electric household equipment are expected to make the best profit performance, because of the expected rise in consumer buying. Next in line are companies that make both household equipment and industrial equipment. Those concerns that concentrate on heavy electrical equipment probably will have lower profits in 1955, because of smaller demand from industry. Dividends of electrical-equipment manufacturers as a whole probably will increase moderately over 1954. Shares in several leading electrical-equipment firms showed a very large price gain in 1954. Comparable gains for 1955 appear unlikely.

Farm-equipment manufacturers can count on better business this year. This industry has suffered

from the drop in farm income in recent years. Farm income is not expected to recover this year, but farmers' need for equipment is expected to rise. That probably means higher sales and higher profits. It seems quite likely that profits in this industry may rise as much as 25 per cent, but the dollar gain is not expected to be enough to justify any large increase in dividends.

More steel. The steel industry will profit from increased output of things made of steel, such as automobiles and household equipment. Estimates are that about 105 million tons of steel will be produced this year, against the 1954 figure of 88.3 million. Profits from this increase are likely to yield around 20 per cent more, with the added prospect that dividends, too, will rise. Stocks in the larger steel companies had a sharp advance in price in 1954 and may not advance so much in 1955. Shares of some of the smaller producers may show considerable gains.

Processors of other metals—aluminum, copper, lead, zinc—are expected to increase profits rather substantially this year. Dividends from this group, however, are likely to rise considerably less than profits will rise. These concerns are expected to find that they need to retain more earnings to build up working capital.

Suppliers of railroad equipment can look forward to improved earnings this year. Profits of these corporations are likely to rise more than 20 per cent because of larger volume. Railroads are expected to order more rolling stock this year, and a number of companies in this field have turned to making other products as well as railroad equipment. All the signs point to higher profits, but gains in dividend payments may be moderate. These companies generally maintained dividends in 1954 in the face of declining profits, so are not likely to be eager to increase payments.

Railroad gains. Railroads themselves stand to cash in on the increased traffic that rising business activity will bring. Leading roads are expected to earn about 25 per cent more than in 1954. Dividends, too, are likely to increase, but not as much as profits will rise. Railroads must apply a rather large portion of earnings to paying off past investments.

In the food and beverage industries, earnings prospects for most firms are good. Distillers are expected to chalk up profit gains of 20 to 25 per cent on increased volume. The soft-drink industry is in a strong growth trend that is expected to continue. Brewers probably will make modest gains. The outlook for somewhat higher dividends appears favorable for soft-drink companies.

(Continued on page 40)

PROFIT PROSPECTS— SOME BIG GAINERS FOR 1955

	PROFITS	DIVIDENDS
Textiles	UP SHARPLY	UP MODERATELY
Air Transport	UP SUBSTANTIALLY	UP CONSIDERABLY
Passenger Cars	SIZABLE GAIN	MODERATE INCREASE
Railroads	UP CONSIDERABLY	SMALL GAIN
Iron & Steel	SIZABLE GAIN	SOME INCREASE
Railroad Equipment	STRONG IMPROVEMENT	MODERATE RISE
Farm Equipment	GENERAL GAIN	FEW INCREASES
Basic Metals	UP MODERATELY	MODERATE RISE
Electrical Equipment	SIZABLE GAIN	UP MODERATELY
Distillers	SIZABLE GAIN	NO INCREASE
Soft Drinks	SIZABLE GAIN	UP SLIGHTLY
Meat Packing	MODERATE GAIN	SOME INCREASE

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Among food processors, the outlook is brightest for meat packers. Some of these corporations suffered quite a slump in earnings in 1954, but the situation now is improving. Profit margins are larger than they were a year ago, and marketings, particularly of hogs, are expected to rise. Increased dividends from packing companies appear probable. Fair-sized gains in profits and dividends also are probable for other food processors—candy manufacturers, sugar and corn refiners, flour millers, processors of dairy products.

Investors appear to be in line for higher dividends from a number of other industries where profit gains may be more moderate in 1955.

Manufacturers of office equipment are likely to have a gain in earnings this year of 15 to 20 per cent—and to pay out a sizable percentage of this increase in dividends. This industry can count on higher demand for conventional pieces of equipment, on larger exports, and on expanding sales of electronic equipment.

Busy builders. Suppliers of building materials are another group that stands to make a gain in profits of around 15 per cent this year and to use a good portion of the increase in paying higher dividends. The building boom spells rising profits here. Chances are that some types of construction will decline before the year ends, but long-range prospects are highly favorable for companies that will benefit from expanded highway and school construction. Most leading companies in the building-supply field already have shown increases in share prices that appear to be ahead of the general advance in the stock market.

The container industry is expected to increase earnings modestly in 1955, but dividends may run 8 to 10 per cent above last year. The reason is that manufacturers of metal and glass containers probably will need less money for expansion this year, so will be in a position to pay larger dividends.

In a similar position are aircraft manufacturers. This group probably will show a modest drop in earnings in 1955, because of a smaller volume of deliveries. However, capital needs of aircraft companies are expected to be considerably smaller, strengthening the prospect that dividend gains will be substantial, possibly as much as 20 per cent.

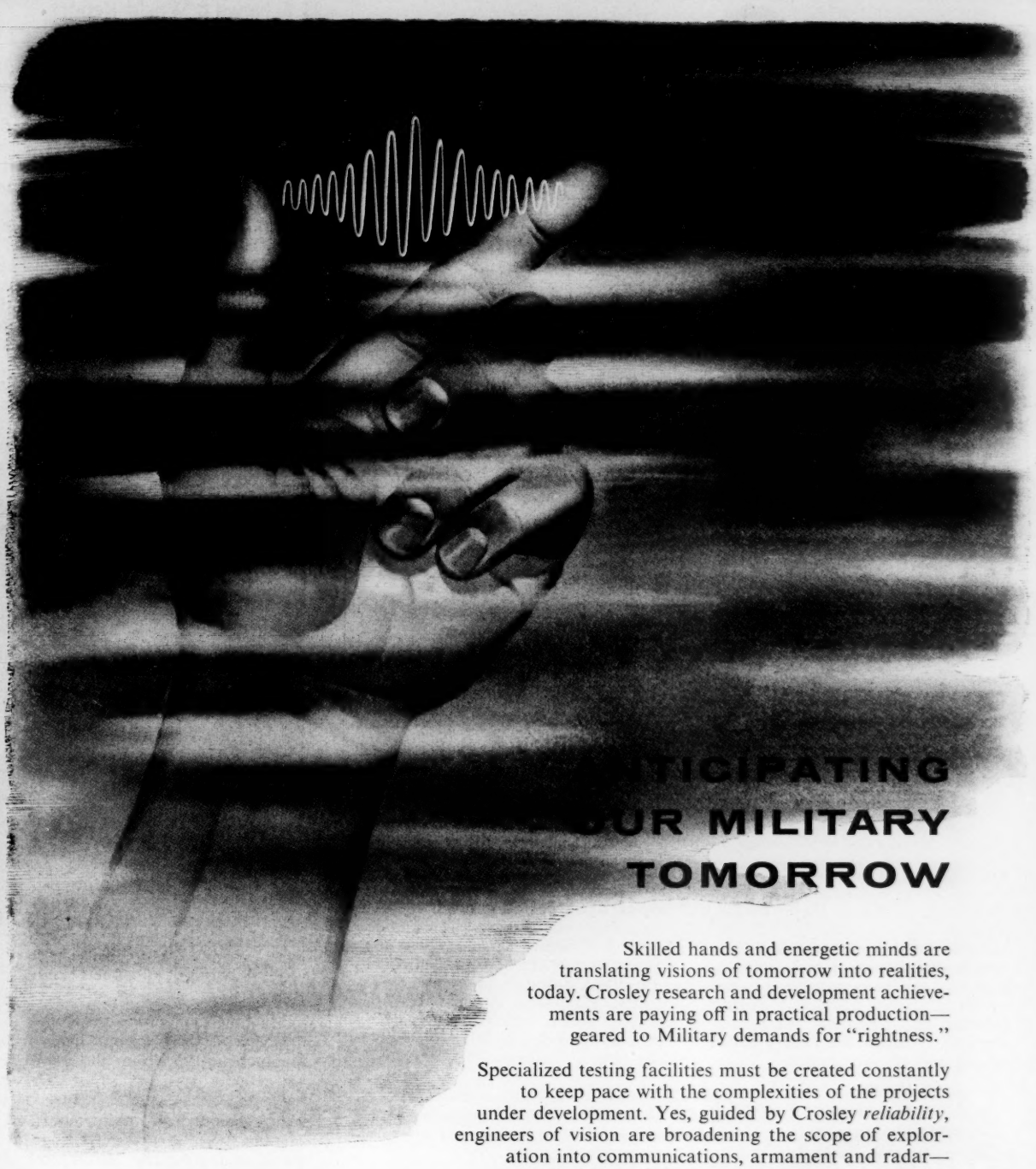
—A.T.&T.

DIVIDEND CHECKS GO OUT
Not all of them will be larger

Manufacturers of paper and paper products can count on further expansion in 1955. This industry is a growing one, and a fillip will be supplied by the rise this year in general business activity. Sales, profits and dividends probably will increase by around 15 per cent.

More modest gains in profits and dividends are indicated in prospects for the chemical industry, drug manufacturers

(Continued on page 42)



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and the petroleum industry. The shoe industry is another activity that appears likely to improve only moderately this year. Tire manufacturers are expected to run into higher costs this year as they shift to tubeless tires. This will tend to put a brake on 1955 earnings for some rubber companies.

Better retailing. In retail trade, leading corporations appear to be headed for a gain in profits of around 10 per cent, with a 5 per cent increase probable in dividend payments. Total sales in 1955 are expected to be slightly better than in 1954, but profit margins of well-managed stores are likely to increase.

Gains in both profits and dividends are indicated for department stores, mail-order houses, variety chain stores and grocery chains. The increases, however, are not expected to be spectacular.

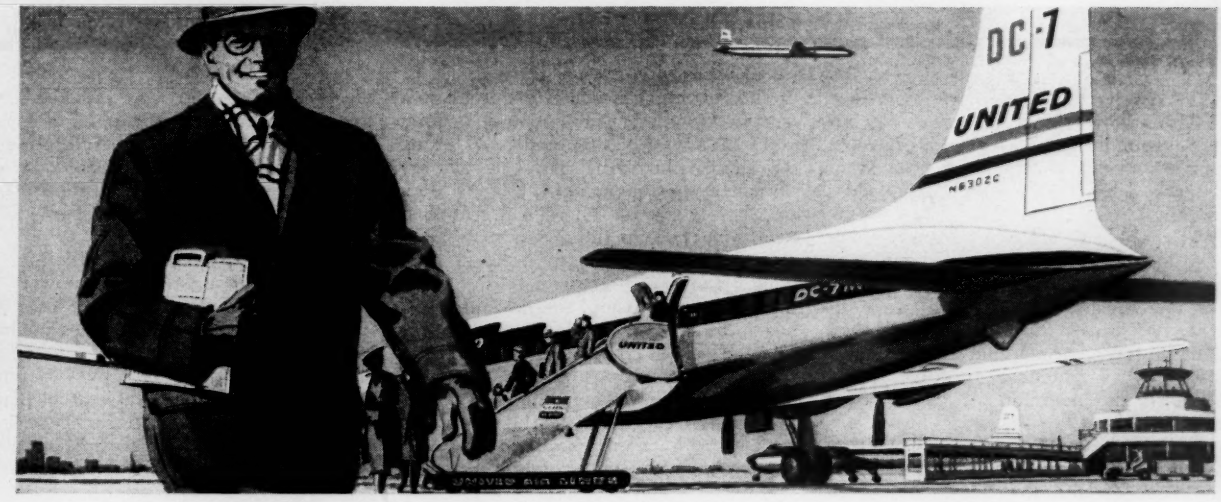
—USN&WR Photo

STUDYING THE STOCKS
Earnings prospects vary

Machine-tool producers, who had a bad year in 1954, are not likely to benefit much in 1955 from the improvement in general business. Last December, however, orders rose rather sharply, which may indicate rising sales and production later in the current year. This group is feeling the effects now of the abnormally heavy purchases of tools from 1950 through 1953. Manufacturers of other types of industrial machinery also had a rather poor year in 1954. They probably will show some modest improvement this year.

In general, however, American corporations will reap larger profits and can be expected to pay larger dividends as the result of the increase in activity now going on. This prospect is a basic influence in the buoyancy now noted in the stock market.

This salesman is "working" but not selling—



This one flies United for extra sales hours

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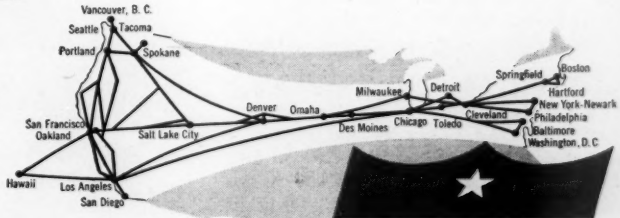

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Eyewitness Account—

MIGHTY U.S. FLEET PRESIDES OVER ANOTHER PULL-OUT

Riding with the Seventh Fleet off the Tachens gives a close-up view of the military power U. S. can hurl against the Communists if real trouble comes over Formosa.

The fleet is still at peacetime strength, but it packs a terrific wallop. Its bombers and fighters, for weeks, have been putting on an impressive show for Red China's radar. Evacuation of the Tachens is only part of it.

This account of the fleet—its planes, pilots and crews—was cabled by Robert P. Martin, Regional Editor for *U. S. News & World Report* in the Far East, from aboard one of the carriers that provided air cover over the Tachens.

Aboard U.S.S. *Yorktown*

Communist China, in effect, temporarily submitted to U. S. naval power in the Pacific during the evacuation of Nationalist troops from the Tachen islands.

The Tachens are within easy range of Communist jet fighters and bombers based on the Chinese mainland. They are just outside the effective range of U. S. or Chinese Nationalist land-based fighters. This means that the Communists, for all practical purposes, could establish and maintain air control over the islands.

But the U. S. Navy simply moved its floating airfields almost within sight of the Tachens—and the Reds, who probably would have liked nothing better than a free chance to eliminate 15,000 of Chiang Kai-shek's best troops by invading the islands, sat quietly and let the Nationalists begin slipping away.

Long before the evacuation began, U. S. carrier task forces were operating in waters around the Tachens and Northern Formosa. The carrier aboard which this is being written was within 60 miles of the mainland at one time. For days, U. S. Navy pilots took to the air for patrols and to practice bombing and strafing runs. Peiping radio reported that, between January 24 and February 4, Navy planes flew 2,220 sorties in 496 groups in the Tachens area. The figure may or may not be accurate. Through it all, the Americans blithely ignored the fact that Communist radar could track them with ease.

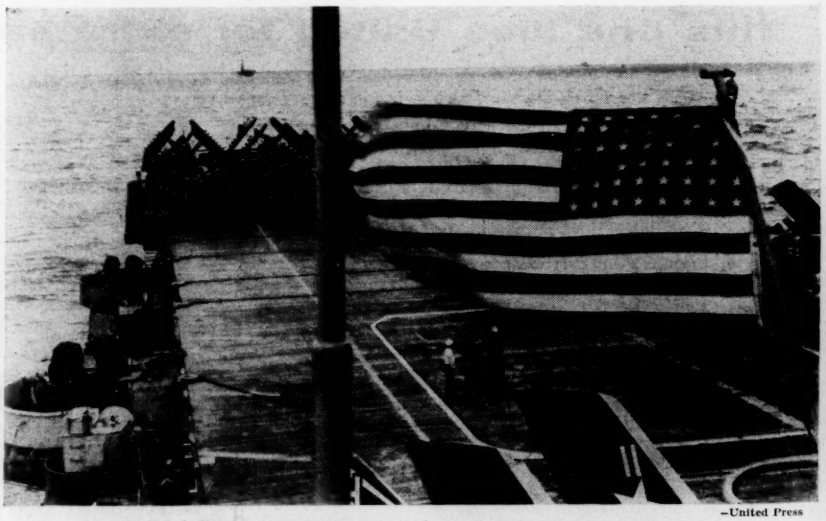
Ready to fight. The point is, the Navy wanted the Communists to know U. S. carriers were in the neighborhood and were ready for trouble. It was an application of U. S. deterrent power on a narrow but potentially explosive front.

The Navy was simply demonstrating the powerful role it plays in military diplomacy in this part of the world. It is responsible for patrolling the sea lanes from Singapore to the northern limits of Japan. It must be ready to fight anywhere along this great defensive perimeter. To do this job, the Seventh Fleet has a force comparable in size to the Sixth Fleet in the Mediterranean—but the Mediterranean is a lake compared with the Western Pacific.

Flying over the Seventh Fleet, you realize with a shock that it is far smaller than the once-mighty American fleets that cleared the Japanese from the Pacific in World War II. Even the 45,000-ton *Midway*, on her first tour in the Pacific, doesn't begin to fill the vacuum left when scores of proud battleships, carriers and cruisers were put in moth balls.

Packs a punch. Nevertheless, the Seventh Fleet bristles with power.

Its sleek Cougars, and its Furies with a speed better than 600 miles an hour, are the Navy's equivalent of the Air Force's Sabre jets. The twin Banshees of the fleet are superb all-weather planes. And its Sky-raiders give the fleet a long-range wallop. Nobody aboard, of course, talks authoritatively about whether



—United Press

THE CARRIER YORKTOWN SOMEWHERE NEAR FORMOSA
It came within 60 miles of the Chinese mainland

atomic bombs are immediately available, but it is common knowledge that the Navy has the capacity to deliver them if it is called upon to do so.

The Seventh Fleet's carriers, except for the *Midway,* carry no more planes now than they did in World War II. But the planes themselves carry bigger bomb loads and they are faster and more heavily armed. Jets cannot stay on station over the target as long as World War II planes could, but they have greater striking range. More sorties can be launched than before because the jets reach their target and return in much shorter time. And the jets—even though they land faster and harder—seem less prone to non-repairable accidents than the conventional planes.

Right now the Seventh Fleet, to do its job, has become the hardest-working fleet in the world. When its carriers are in port any length of time, the planes are flown to land bases where the pilots practice joint defense with the Air Force. In recent months the fleet has left port many times within hours of its arrival because of emergencies in Indo-China or off Formosa.

The ships are at peacetime strength, or about 60 per cent of the wartime. That means officers and men alike do double duty. For instance, men scheduled for transfer to other ships or out of the service worked right to the last minute loading provisions aboard this carrier.

A carrier has only one reason for existence—to keep an air group flying and ready to fight. The heart of the ship, therefore, is in the ready room where the pilots are briefed, on the hangar deck where planes are serviced and re-

(Continued on page 46)

—Wide World

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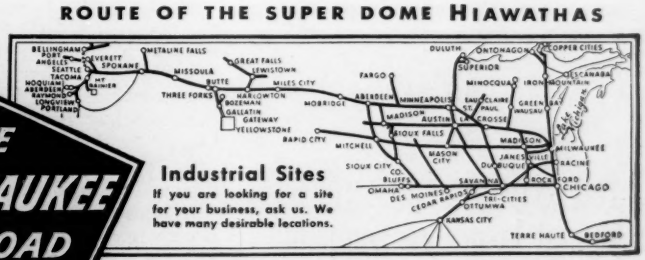

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paired, and on the flight deck where the ship's total effort reaches its climax.

Probably nowhere else in the military world do you find the clocklike precision that is standard procedure on a carrier launching or receiving its planes. The flight deck is riotous with color and movement: plane handlers in yellow caps and shirts; gasoline and oil men in red; plane pushers in blue; mechanics in green; firemen in white asbestos suits. Hand trucks loaded with bombs bounce across the arresting cables that drag landing planes to a halt. Yellow-painted baby tractors haul planes from one end of the deck to the other, spotting them according to the needs of the moment.

Precision job. Finally the order comes down from the bridge to prepare for launching. The decks are cleared of men and equipment as the carrier turns into the wind. The whine of the jets and the growl of conventional engines rise to a screech. Then, with the sharp snap of a bullwhip, the catapult launches the first plane. Others follow every few seconds and soon the planes are forming into flight formations overhead.

Launchings and landings are precise because they have to be. Jets have a limited time in the air, and wasted minutes could mean a million-dollar plane ditched in the ocean.

The precision everywhere evident comes from continuous practice, which means, in turn, that the carriers are the hardest-working ships of the fleet at sea.

Return delayed. Nevertheless, the spirit and morale of the crew aboard the *Yorktown* are high. Her scheduled departure for the U. S. for the installation of new decks has been postponed three times because of the Formosa situation. Mail has been diverted and just now is beginning to catch up. The Navy, for security reasons, did not tell the men where they were going on this trip. There are nightly blackouts, and the planes take off loaded with bombs and rockets instead of the usual practice missiles. With all this going on, the ship festered with "scuttlebutt"—shipboard gossip—until news broadcast from Japan disclosed that the fleet was protecting the Tachens during the Nationalist evacuation.

In the ready room you find two viewpoints among the pilots of a fleet that is cautiously skirting the edges of possible war.

The younger pilots who have never seen combat appear eager to test themselves and their planes against the Communist MIG's. Older pilots—men who, on this tour, have been overseas more than seven months—want to get back to their families. But it is doubtful if a single one would leave the air group now even if he had a chance.

These pilots definitely are not "trigger happy," but, as one of them explained the attitude: "Sure, I want to go home—but I don't want to miss anything either. If trouble comes, I hope it will be before we leave."

—Department of Defense

AN "UMBRELLA" OF COUGAR JETS
Communist radar was blithely ignored

Strategy now that the Tachens are gone—page 48. What U. S. agrees to defend—page 50.

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Next Trouble Spots for U.S.

Matsu, Quemoy, Nanchi—It's Retreat or a Fight

New showdown in Asia is being shaped now, to involve three island groups just off China's mainland. The prospects:

• Nanchi, 80 miles south of the abandoned Tachens, appears to be next on the Communists' schedule, is within Red air range.

• Matsu, across from Formosa, faces a new Communist build-up.

• Quemoy, most important outpost, is most vulnerable too.

Reported from
TAIPEI and WASHINGTON

War tensions in the Far East, far from being settled by the evacuation of the Tachens, are shifting now to three key island groups south of that area—Quemoy, Matsu and Nanchi.

Here a new showdown could come as soon as Communists complete their air build-up across from Formosa. Then the U. S. will be faced with the same dilemma that was posed at the Tachens: Decide to fight or to conduct an evacuation. But this time the cards are stacked somewhat differently.

Militarily, these islands could be vitally important if the Chinese Communists are going to stage a big amphibious assault on Formosa sometime in the future. Matsu is spotted just off the big Communist staging area of Foochow, could be used to observe any invasion plans at close range. Quemoy is within sight of Amoy, the other major port from which an invasion could be launched.

Even if Communist officials are bluffing and no actual invasion of Formosa is in sight, Chinese Nationalists in these capitals believe that the loss of any one of these islands may have as much psychological importance as did Dienbienphu to the French in Indo-China. Their capture, in other words, could demoralize the anti-Communist side, permit Communists to gain Formosa in the end by default.

Prospects at this time, however, are that the U. S. will be unwilling to become embroiled in war with Communist China over any of the offshore islands, that any military aid for their defense will be limited to arms to be used by Chiang's forces.

Next Communist target? Nanchi island, 30 miles from the Chinese mainland and just 80 miles south of the abandoned Tachens, appears to be next on the Communist timetable. Nationalists have announced their determination to defend there, and consider their 3,000-man garrison adequate. Unlike the Tachens, Nanchi is beyond range of Communist shore artillery and is within effective range of jet fighters based on Formosa, 120 miles away.

Nearest Communist jet base is 160 miles north of Nanchi, which puts this island within combat range of Communist jet IL-28 bombers at this time, while Matsu and Quemoy will not be within effective range of enemy jets until a new base is completed at Foochow. For this reason, much more pressure can be brought to bear immediately on the tiny island of Nanchi by Communists, if they are willing to pay the price.

A likely place from which the Communists would launch an invasion of Formosa, however, is Foochow, near the mouth of a river blocked by the islands of Matsu. Unless Communists took these small islands, they could not count on making a successful attack on Formosa, because warning could be given and the invasion fleet brought under constant attack. Meanwhile, Nationalists are using Matsu to enforce a partial blockade of the big Communist port.

—United Press

BIG GUN ON QUEMOY
. . . can hit the mainland

It is in this area that Communists are building a new air base and have assembled an Army force estimated at about 50,000 men. Against it, the Nationalists have a garrison of about 6,000 men and could count on some air defense from Formosa, only 90 miles away.

Quemoy: most vulnerable. Within sight of the big Communist port of Amoy and 130 miles due west of Formosa are the four Quemoy islands, considered the most important, but most vulnerable, of all offshore islands still held by the Nationalists. There the anti-Communists have packed 50,000 troops, vast amounts of equipment, to meet a long-expected attack.

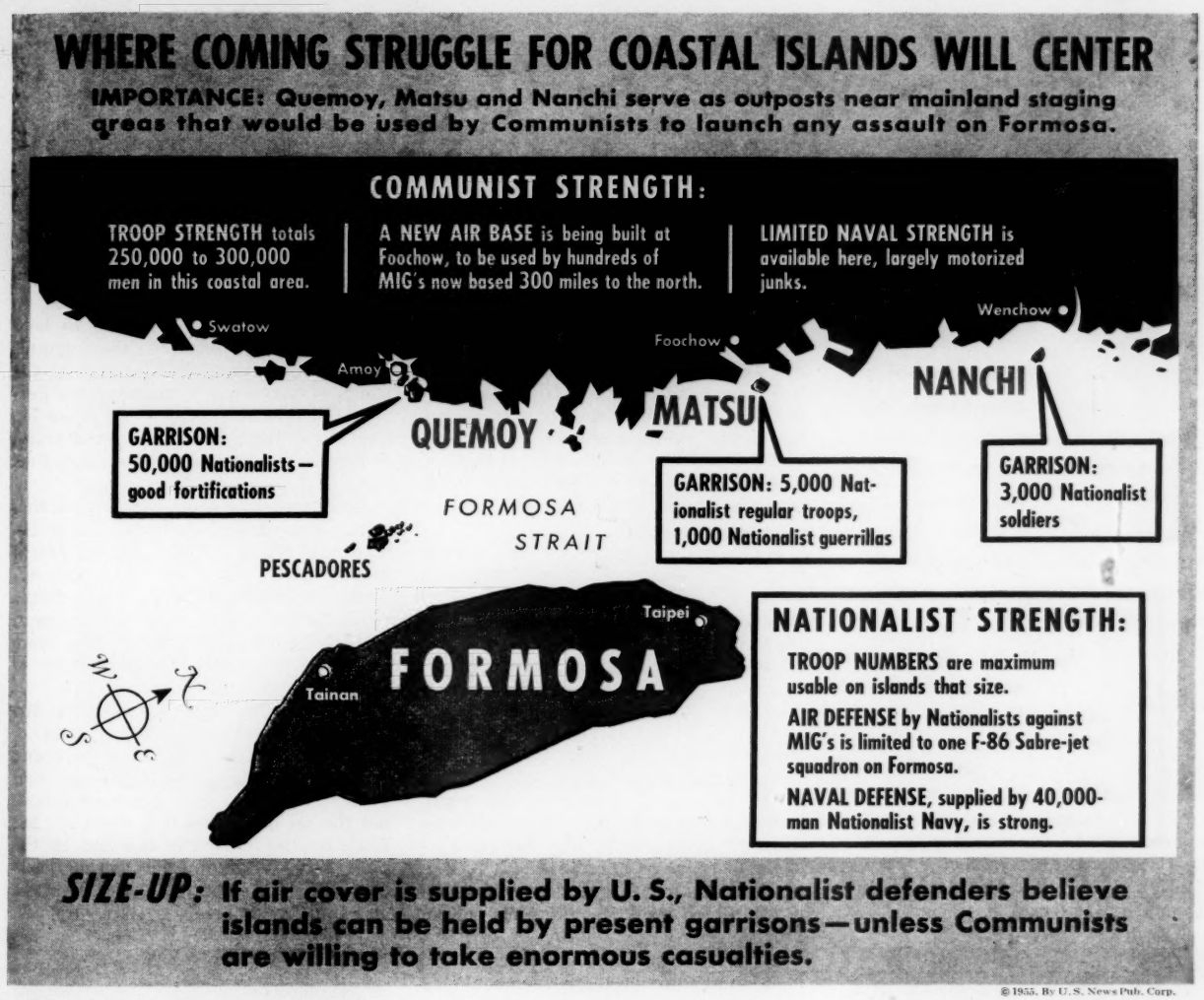
The two main islands—Big Quemoy, 11 miles long, and Little Quemoy, 6 miles long—are fitted with artillery that commands the narrow channels leading to the strategic Communist port. And, as long as a blockade of Amoy can be maintained, the Communist build-up for any invasion of Formosa or push into Southeast Asia is seriously handicapped.

The Nationalist-held islands, however, are surrounded on three sides by the Communist-held mainland, within easy gun range. From Little Quemoy, through binoculars, you can see Communist bunkers near Amoy, only a few thousand yards away.

So far, despite constant artillery attacks, the Nationalists have managed to defend the Quemoys because Communists have been unable to set up jet airfields nearby to gain air superiority over the islands. As long as the Reds lack air superiority, the odds are against their making a successful invasion, as U. S. military observers see it. But the islands will be well within range of the new jet base being developed now at Foochow and others under way farther south.

Will Communists attack? The pattern for a crisis over these offshore-island groups, in the view of some American officers, was set by events that led up to the Tachens evacuation. For five years, Nationalist troops occupied all those islands just a few miles off the Communist mainland. They were virtually unmolested, since the Nationalist Navy controlled waters around the islands and Communists lacked air power in the vicinity to support an amphibious attack.

But the picture changed radically a few months ago, when Communists began an air build-up on the mainland op-


WHERE COMING STRUGGLE FOR COASTAL ISLANDS WILL CENTER
IMPORTANCE: Quemoy, Matsu and Nanchi serve as outposts near mainland staging areas that would be used by Communists to launch any assault on Formosa.
COMMUNIST STRENGTH:
TROOP STRENGTH totals 250,000 to 300,000 men in this coastal area.
A NEW AIR BASE is being built at Foochow, to be used by hundreds of MIG's now based 300 miles to the north.
LIMITED NAVAL STRENGTH is available here, largely motorized junks.
Swatow
Amoy
Foochow
Wenchow
NANCHI
MATSU
QUEMOY
GARRISON: 50,000 Nationalists—good fortifications
GARRISON: 5,000 Nationalist regular troops, 1,000 Nationalist guerrillas
GARRISON: 3,000 Nationalist soldiers
FORMOSA STRAIT
PESCADORES
Taipei
FORMOSA
Tainan
NATIONALIST STRENGTH:
TROOP NUMBERS are maximum usable on islands that size.
AIR DEFENSE by Nationalists against MIG's is limited to one F-86 Sabre-jet squadron on Formosa.
NAVAL DEFENSE, supplied by 40,000-man Nationalist Navy, is strong.
SIZE-UP: If air cover is supplied by U. S., Nationalist defenders believe islands can be held by present garrisons—unless Communists are willing to take enormous casualties.

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posite the Tachens. The Nationalists, whose nearest Formosa bases were beyond effective range, were unable to cope with the developing air threat. That was demonstrated when Communists overran the 700-man Nationalist garrison holding the tiny island of Yikiangshan, within gun range of the Tachens.

In this case, the Nationalists agreed to evacuate the Tachens. In the case of the three offshore groups to the south, more is at stake and a defense is more likely to be attempted.

Balance of air power over these islands—the key to victory—at present is held tenuously by the Nationalists. But, as in the case of the Tachens, the advantage could swing at any time to the Communists. Numerically, the total Chinese Communist air force outnumbers that of the Nationalists by about 2,000 aircraft against 500. The figure for the Communists, moreover, includes 850 jets, of which 600 are MIG-15s and 125 are twin-jet IL-28 bombers. The Red Chinese lack only the air bases from which to operate in the Amoy-Foochow area. This deficiency is being corrected by the construction at Foochow.

By comparison, Nationalist Chinese on Formosa are just getting their first squadron of 25 jet F-86 fighters into combat readiness. In the transition from propeller types to jet fighters, the plan is to set up one wing of 75 of these Sabre-jets, and two wings of slower F-84 jets.

Wanted: U. S. air help. Chinese Nationalist planners, as a result, are pressing for U. S. air support for their defense of the remaining offshore islands. If the present balance of air power shifts, as they fear it will, support by U. S. planes could be vital.

Naval defense, however, can be handled by the Nationalists alone, the planners figure. By giving up the Tachens, the 40,000-man Nationalist Navy no longer has to defend logistical operations 200 miles away and can dispose its fleet better to protect the remaining islands. Also, Communist naval bases are far to the north and the Communist Navy is not a deep-water fleet.

Troop strength does not worry Nationalist planners particularly, either. Communists have 250,000 to 300,000 troops stationed along the coast across from the three offshore-island groups, another 300,000 across from the Tachens, available for use to the south. But Nationalists believe that their islands are guarded by as many troops as size permits, and that even a far bigger Communist invasion force could capture any island only by taking enormous casualties.

Key to the invasion prospect, whether or not Communists are willing to take those casualties, is to be the balance of air power in the area. American observers, as a result, are keeping close watch on the Communists' new air base. When it is ready, they expect trouble.

ANOTHER OUTPOST FOR AMERICA

Formosa Treaty Opens Way for Military Bases

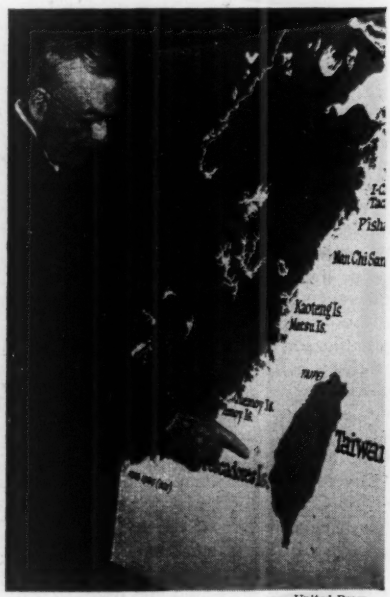
There are changes for both U. S. and Chiang Kai-shek in the Formosa Defense Treaty, approved February 9 by the U. S. Senate.

For U. S.: Formosa becomes a defense post. It can mean land, sea, air bases, a general build-up of American power in the Pacific.

For Chiang: He goes under new restrictions. Attack on the mainland, and enlarged war, is out unless U. S. gives a go-ahead.

The U. S. now is assuming formal treaty commitments with Chiang Kai-shek on Formosa. Under the terms of this mutual-defense agreement—

- U. S. formally has added a new outpost to its Pacific defense system by pledging to fight for Formosa and the Pescadores.
- U. S. naval, land and air bases on Formosa may be the next step, now that the U. S. Senate has ratified the treaty. Chiang's Government is ready to sign agreements for bases.



—United Press

JOHN FOSTER DULLES
. . . one more commitment

- Chiang Kai-shek cannot try an invasion of the China mainland without U. S. approval. The agreement provides that neither the U. S. nor Chiang take offensive military action from Formosa and the Pescadores unless the other consents.
- Two Chinas still are possible. The treaty does not recognize Chiang's claim to the Chinese mainland. It does accept him as the lawful authority on Formosa and the Pescadores. There is no legal or diplomatic barrier to recognition by U. S. of a Communist China alongside a non-Communist Formosa.
- The fighting forces of the Chinese Nationalists can be effectively restricted to the defense of Formosa and the Pescadores. The Nationalists cannot substantially weaken the defenses of those islands by moving away forces without American approval, if those forces were trained or equipped with U. S. help.
- The U. S. commitment cannot be extended to defend other areas without the approval of the Senate.

The agreement consists of the treaty proper and an exchange of notes between the two governments. The Senate Foreign Relations Committee, in recommending approval, spelled out the manner in which the U. S. interprets certain provisions.

What Chiang gets. Chiang gets two main things out of the agreement. One is formal assurance of help in defending Formosa and the Pescadores. The other is the promise, made by Secretary of State John Foster Dulles, that the U. S. will not hand these pieces of real estate to the Communists in a political horse trade.

At the same time, Chiang has his wings clipped. In effect, he can use the Pescadores and Formosa for action by himself only in emergencies. If he wants to launch an offensive against the mainland or the Communist islands, he must get permission from the United States.

Troubles for Chiang are expected to result. For years he has kept up troop morale by promising a victorious return to the mainland. He still is promising to return. It's uncertain, as a result, how long Chiang will be able to keep his aging troops tuned up to fighting pitch, once they learn the real situation.

America's commitment. The U. S., by the treaty, has served formal notice on Communist China that it really will fight, and has defined the area it will defend. Up to now, there has been talk that the U. S. was making a show of resistance in order to get the best possible terms out of a deal with the Communists. Now the U. S. is committed.

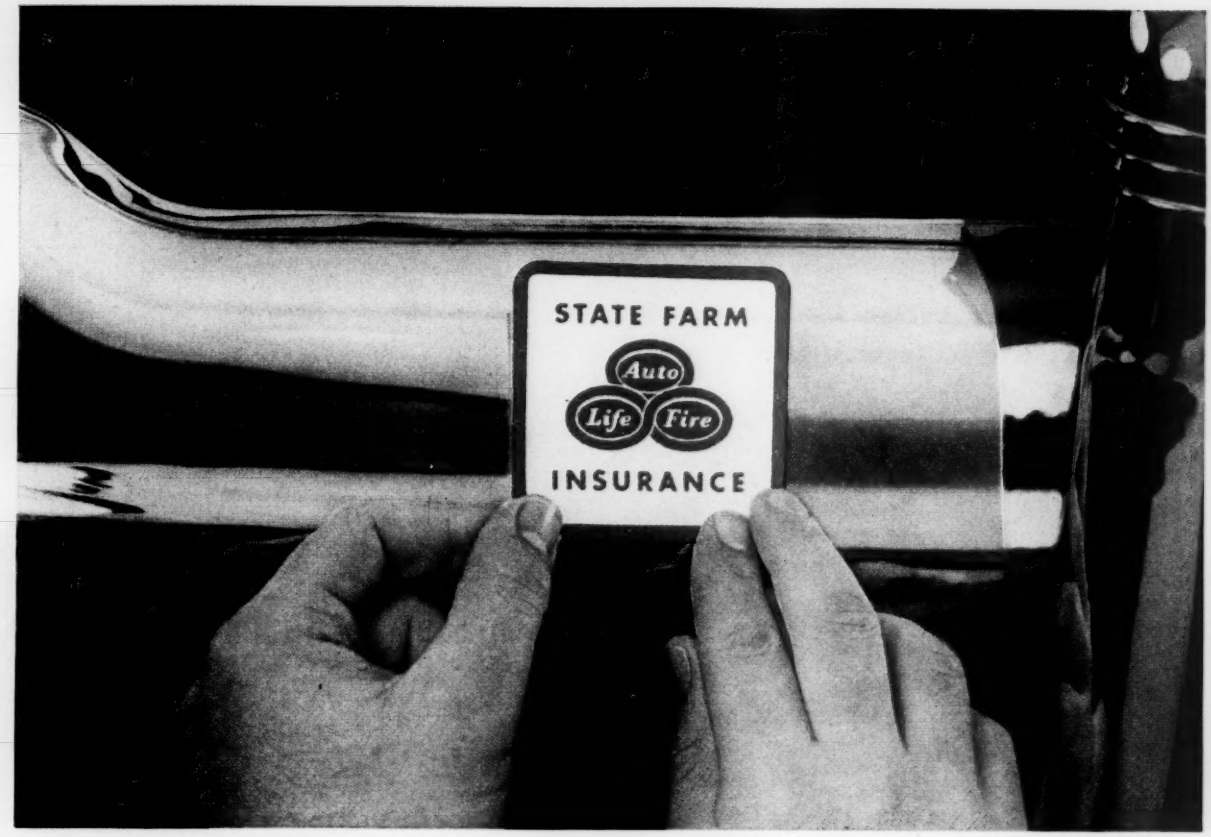
The question is being raised as to whether the U. S. is obligated to help Chiang hold the offshore island groups of Nanchi, Quemoy and Matsu. In the words of the Senate Committee on Foreign Relations, the treaty "does not extend the obligation of the United States to defend any territories other than Formosa and the Pescadores."

According to one view, this means that U. S. forces could not help Chiang defend the Nanchi, Quemoy and Matsu groups unless the Senate approved. According to another view, American forces could be used to help hold these groups, without Senate approval, if they were considered necessary to the defense of Formosa and the Pescadores.

With the agreement approved, the Chinese Communists face a chain of strong points stretching from Korea and Japan down through Okinawa and Formosa to Australia. The agreement rounds out the set of treaties that the U. S. has made for the defense of this line. At the same time, it gives clear warning that the U. S. will fight to defend Formosa and the Pescadores.

—United Press

CHIANG KAI-SHEK
. . . one more restriction



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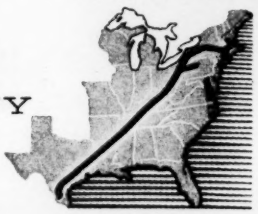

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A New German Army—Where It Stands Now

Down goes another French Government. With it, once again, down go U. S. hopes of getting a German Army on schedule.

Germans are supposed to have troops for Europe's defense this spring. It's still possible. But France's weakness means delay.

There will always be another French Government. But nobody knows for sure whether there will be a German Army in the West.

PARIS

The fall of still another Government in France once again is blocking the creation of a German Army.

The West German force which U. S. leaders consider essential to the defense of Europe is not yet in sight. Five years of bickering and bitterness, of patient waiting by the U. S. and promises by French governments have led to just another crisis in France.

Latest plan calls for a force of 12 West German divisions and half a million Germans under arms. A few weeks ago this force was expected to be marching, arming and training by spring.

Then, overnight, hopes for final action once again were dashed. A French Government presumed to have real authority suddenly was voted out of office by the French Assembly. And final approval of a plan to rearm Germans for the defense of Europe is delayed.

Delay, this time, can be ruinous for the Western alliance. And U. S. officials here in Paris freely admit that the rearming of Germany, after all, may remain a will-o'-the-wisp.

Odds still favor a West Germany Army, eventually. But nobody can be sure, at this stage, when it will come. Certainly the timetable which was supposed to be set now is wrecked.

Here are the steps which the U. S. and its allies have taken in the long, slow and discouraging effort to get French agreement on rearming Germany.

1945—Worry over Russia. Behind the scenes, even before the shooting stopped in World War II, there was serious private concern among top leaders of the Western alliance about Russia's intentions, about the wisdom of disarming a defeated Germany.

Sir Winston Churchill recently recalled that he had ordered the British commander in Germany at the war's end to stack captured German arms for possible reissue to German troops "if the Soviet advance continued."

(Continued on page 54)

—Wide World

WEST GERMAN TROOPS ON MANEUVERS
. . . they are still not part of an "Army"

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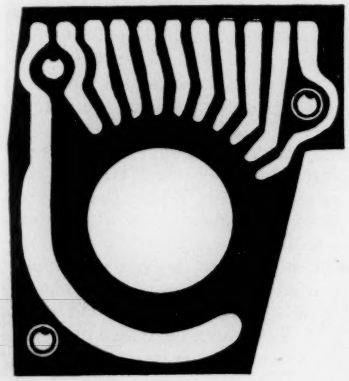

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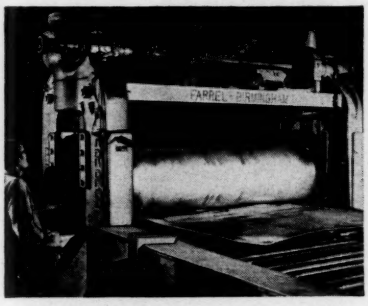

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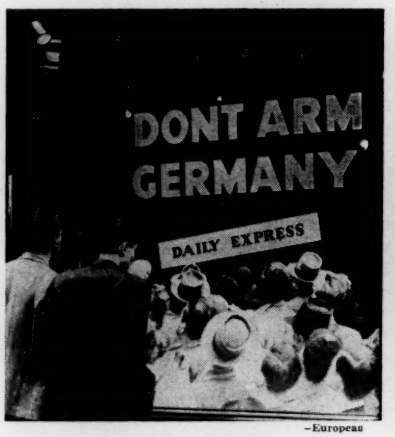
The British leader could not find a copy of this message. But he, like U. S. military leaders, agrees that there was widespread private concern at top levels about the attitude of the Russians, about the idea that Germany might have to be rearmed fairly soon to help keep Soviet ambitions in check.

1947—Co-operation's end. "For all practical purposes," Lord Ismay, Secretary General of the North Atlantic Treaty Organization, declared recently, "the Moscow Conference of 1947 marked the end of postwar co-operation between Russia and the democratic countries."

In the same year, working out defense plans as a result of the deadlock between the Soviet Union and the West, military men in Washington, London and elsewhere in the West were trying to decide how Western Europe could defend itself without West Germany's trained manpower.

Conclusions reached were that the defense of Western Europe was next to impossible without a German contribution.



—European

SIGN IN LONDON
Some Frenchmen agreed

1948—Big troubles. "Cold war," as waged by Soviet Russia, showed European leaders the urgency of defense planning. Communists seized Czechoslovakia. Soviet commanders, on Moscow's orders, tried to blockade Berlin.

The Western Union agreement, signed at Brussels in March, 1948, was the first European effort to get together in a common defense after the war.

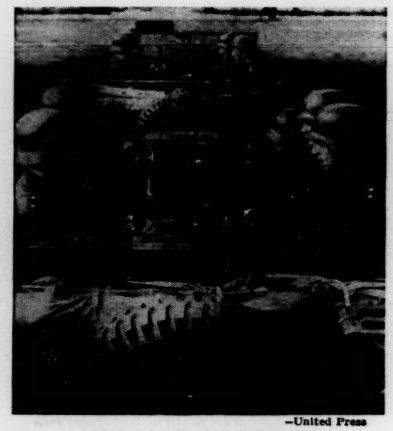
Britain, France, the Netherlands, Belgium and Luxembourg, at Brussels, signed a 50-year alliance. Germany was not invited to sign. Many of those who signed the alliance considered it designed primarily to protect Europe against a revived Germany. But, as Moscow became more aggressive, Western Union set up a common military command under Field Marshal Bernard

L. Montgomery and asked for American arms to use in the defense of Europe.

In Washington there was a conviction at top levels in the Pentagon that Europe, in the long run, needed defense help from a German Army. The U. S. was investing billions of dollars' worth of economic and, later, military aid in the hope that a stable Europe, eventually, could defend itself.

In July, 1948, the U. S. and Canada began negotiations with the Brussels Treaty powers looking toward a common defense. Actual drafting of the North Atlantic Treaty began in Washington in December. During this period, both soldiers and statesmen talked of how Germany could contribute to the common defense. But the political climate in Europe did not seem right for action.

1949—NATO's birth. Early in April, 1949, the North Atlantic Treaty was signed in Washington. All the military men involved in these negotiations were



—United Press

GERMANY'S MANPOWER
. . . an untapped reservoir

aware that U. S. officers wanted eventually to bring German troops into the European defense plan.

Defense Secretary Louis Johnson, early in 1949, was looking about for means of getting better defense for less money. Congress, too, began asking why Germany contributed nothing to German defense.

In the spring of that year, the U. S. Joint Chiefs recommended, and President Truman approved, an American effort to seek agreement among the Western powers on the rearming of Germany. From the start, this proposal ran into trouble in France.

1950—War in Korea. Talk of rearming Germany due largely to French objections, did not get far until midyear. Early in June, 1950, Field Marshal Montgomery, chief of the combined

(Continued on page 56)

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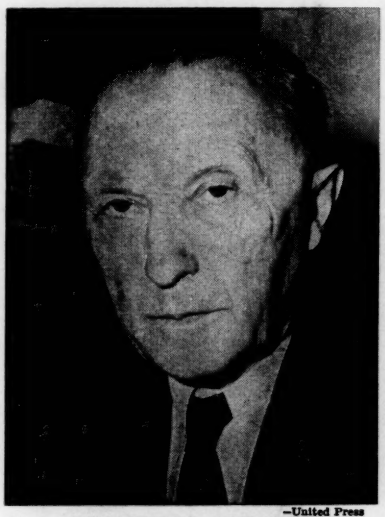
forces of Western Union, told the governments of that alliance that "there would be scenes of appalling and indescribable confusion in Western Europe if we were ever attacked by the Russians."

Moscow, once again, gave real urgency to Europe's defense plans. Communists attacked in Korea. War in the Far East ended all doubt of the Communist intent. Communists in East Germany got a 50,000-man Army, trained and armed by Russia.

In August of 1950, at Strasbourg, Winston Churchill suggested a united European Army. A few days later, Chancellor Konrad Adenauer said West Germany was ready to contribute to such an Army.

U.S. Secretary of State Dean Acheson, in September, asked the British and French foreign ministers at New York to agree to seek a German Army. Under



—United Press

CHANCELLOR ADENAUER
. . . a later deadline?

pressure from the allies of France, a French Premier proposed a European Army containing German units.

1951—Discussions. Nearly a year and a half was exhausted in long and difficult negotiations in Washington, London, Paris and Bonn. U. S. leaders worked on the side lines, seeking agreement.

1952—EDC moves ahead. A French Government, finally, signed an agreement for a European Defense Community, to include a German Army, in May, 1952. The Germans accepted the agreement, too. There was enthusiasm in the West, optimism in Washington.

Under EDC there was to be a European Army with 14 French divisions, 12 German divisions, 12 Italian divisions and 5 from other countries. The common command of this Army was linked to the European community, of which Germany was a full member.

1953—Paris delays. Speedy action was wanted by the U. S. on ratification of this agreement, but the French delayed action. In Paris, Government after Government fell without even daring to take the treaty to the Assembly. U. S. statesmen, diplomats and soldiers wheedled, applied pressures, offered concessions and guarantees, but the French stalled.

1954—EDC is buried. Finally, in August, 1954, Premier Pierre Mendès-France took the treaty to the Assembly, but he did not stake his Cabinet's future on the vote. The Assembly killed the plan. U. S. Secretary of State John Foster Dulles called it "a tragedy."

Out of the wreckage, British Foreign Secretary Anthony Eden pulled together a new plan for the rearming of Germany. This plan, negotiated in London and in Paris, was finally accepted by the Mendès-France Government.

The London-Paris accords call for German forces of 500,000 men organized into 12 divisions, an Air Force, even a small Navy, all under a German general staff. Top command of all forces in Europe is to be vested in NATO.

Mendès-France, this time, staked his Cabinet on the vote. The Assembly approved the London-Paris plan by a narrow margin and there was great enthusiasm among Western leaders. For a Premier as strong as Mendès-France, it was said, approval by the French upper house, which has little real power, was secure. President Eisenhower called the action "a matter of great gratification, not only to the United States, but to the entire free world."

1955—EDC substitute waits. Suddenly, on Feb. 4, 1955, the French Assembly threw Mendès-France and his Government out of office. The vote came on a question of colonial policy, not on German rearmament. But, once again, the rearming of Germany was upset by French politics. Approval by the French upper house now must be sought by a new Premier. Delays are certain. More upsets are likely.

Such French instability has plunged Western leaders into the deepest gloom. In the U. S., particularly, there are grave doubts about the future of Western cooperation, not only on the long-delayed task of getting a German Army, but also on building a firm defense system based on wobbly French governments.

The odds still favor the eventual creation of a German Army, mainly because Western leaders can see no alternative as a means of defending Western Europe. The timetable for German rearmament which was considered secure a few weeks ago, however, is wrecked. And nobody knows, for sure, when, if ever, the West will get a German Army.

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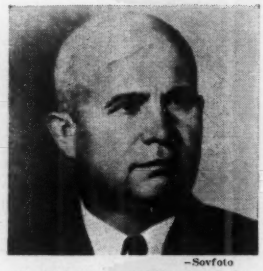
THE MEN... Khrushchev, Bulganin **THE NEWS... Russia's New Rulers**

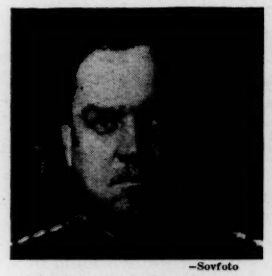
Tough, but—Tough Enough to Last?



—Sovfoto

NIKITA S. KHRUSHCHEV

A new Russian at the top, Khrushchev, faces a struggle to keep and extend his power. A dogmatic, determined old-line Communist, he issues the orders. New Premier Bulganin, a long-time political chore boy, carries them out.



—Sovfoto

NIKOLAI A. BULGANIN

NIKITA S. KHRUSHCHEV, a hard, uncompromising, old-style Communist bent on world conquest, is consolidating his power as the new boss of the Kremlin and the closest thing to a one-man dictator that Russia has seen since Stalin.

To act as front man and carry out orders, Khrushchev has named his own Premier, Marshal Nikolai A. Bulganin, an old party professional, for years the top political policeman of the Red Army, who shares his chief's yearning for a Communist world.

Concededly, Khrushchev is tough. Otherwise he could not have emerged from the most recent Moscow power grab with his present position of strength. But whether he is tough enough to hang on to his leadership remains to be tested in the period just ahead.

Actual or suspected foes now must be weeded out, cut down; Khrushchev men placed in dozens of pivotal positions. On the basis of their records, neither Khrushchev nor Bulganin will recoil from whatever measures may seem needed. To both of them, the cold-blooded purge is old stuff, its techniques mastered years ago.

In addition, Khrushchev is expected to keep "cold war" tensions running high, to bluster and threaten, prod Red China constantly into bristling attitudes. By all accounts, he never has believed it possible to get along with the capitalist world, thinks it scarcely worth trying. But until some glaring Russian economic ills are eased and his personal position made secure, few think he would risk a big-scale war.

Khrushchev knows all the Communist techniques of making belligerent statements one day and soothing pronouncements the next, has used that stratagem only recently. He is a wily politician, adroit at Kremlin intrigue. The man, in fact, is a rounded Communist, who has worked hard and learned all his lessons.

The new boss. At 60, Khrushchev is a squat 5 feet 5. He weighs well above 200 pounds. But he is not flabby. He has the hardened physique of a professional wrestler. His head is egg-bald and gleaming, his face round and mobile. His eyes twinkle and he laughs and smiles readily—revealing two gold teeth. The Communist chief, in fact, presents an outward picture of good nature and amiability.

—Sovfoto

BULGANIN, KHRUSHCHEV AND MAO
China may be in for some prodding

Khrushchev likes to have people about him. He has the politician's knack for recalling names and faces. He talks incessantly and animatedly, but in a rather rough, blunt manner. Elaborate gestures go with his words. In public speeches, he tries to be folksy, which does not always go over with his audience. But his accent reveals his peasant, provincial origins, a mark of distinction in Russia.

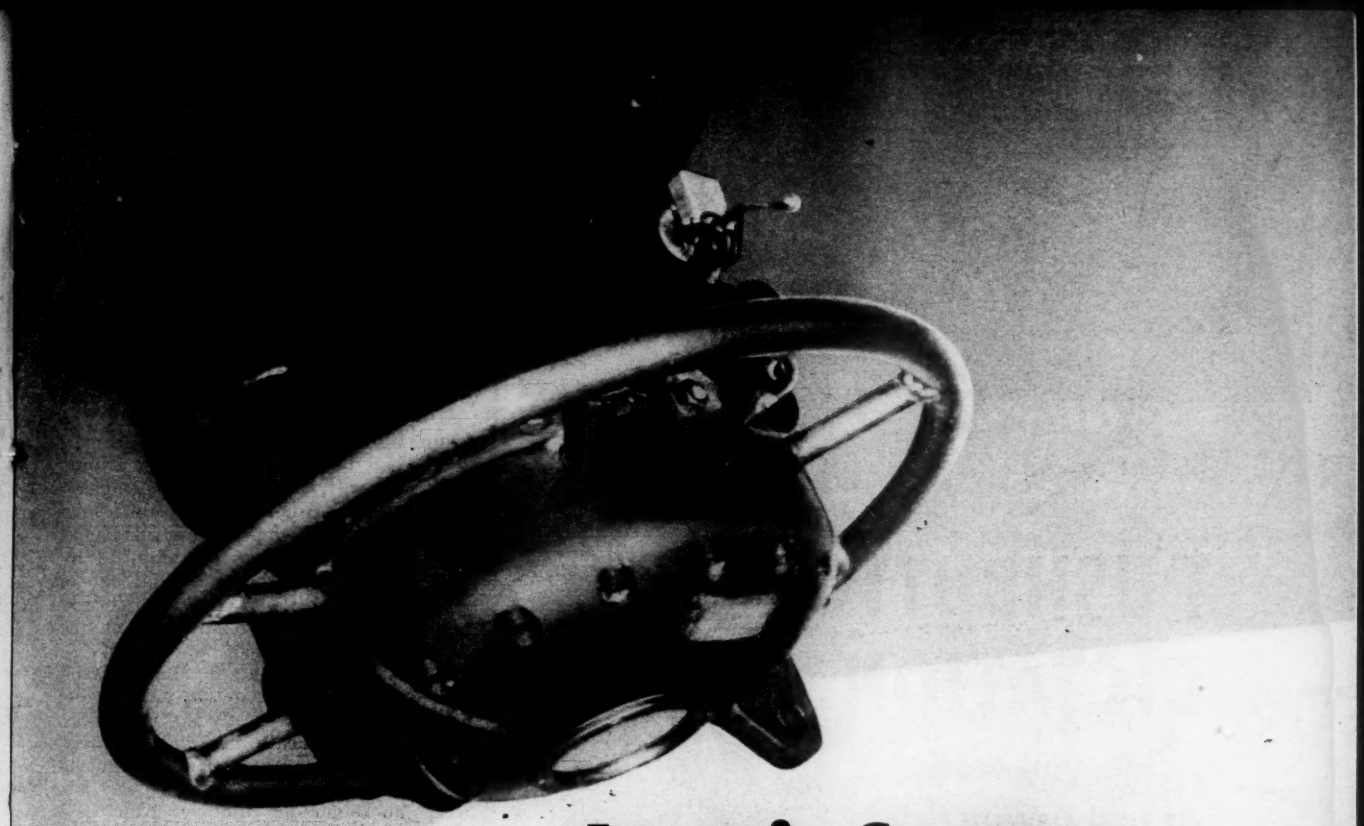
The man takes special delight in receptions and other social occasions and drinks prodigiously of the always-plentiful vodka. People cluster about him, listening eagerly to his stories. In a land not notable for its humor, Khrushchev is considered quite a wit.

All this serves to conceal the inner hardness and determination of this shrewd, peasant official. He demands results, is relentlessly impatient of mistakes in others, but quite willing to overlook his own. He is not quite an "Old Bolshevik," but has the enthusiastic support of the older fanatic group that never has forgotten what it considers Communism's international mission.

Rise to power. Khrushchev was born to an impoverished, coal-mining family in the Ukraine. His grandparents had been serfs. There is no record that the boy had any early schooling. At 10, he was working for a sheepherder and then went into the mines. He joined the Communist Party forces during the Revolution in 1917 and the party itself a year later. Through the ensuing civil war he fought in the ranks.

After the war and barely literate,

(Continued on page 60)



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Khrushchev in Ukraine: fighting, purging, building...

Khrushchev turned to party work. He attended adult workers' schools, distinguished himself and went on to study in Moscow at the Industrial Academy. His prestige in the party grew. In 1935, he became party leader in Moscow. But Stalin needed him for other duties.

In 1939, Khrushchev was sent back to the Ukraine to preside over the liquidation of some 3,000 party members who had been tagged disloyal. During World War II, with the rank of lieutenant general, he was behind the German lines in the Ukraine, organizing guerrilla bands. After the war he was in charge of reconstruction in the Ukraine and also of cutting down disloyal elements. Khrushchev is considered an authority on the repression of Ukrainian nationalism.

By late 1949, high in Stalin's favor, he was back in Moscow, as party leader for the city and ready to go places. After Stalin's death in 1953, however, it appeared that Khrushchev had missed out. He even lost his Moscow party job. But he rebounded quickly. Nine days after Stalin's death, he took over the duties of First Secretary of the party, the post through which both Stalin and the deposed Georgi M. Malenkov rose to power.

Months ago, it became obvious that Khrushchev's prestige was increasing rapidly. It was he, not Malenkov, who made important policy announcements. He even tried patronizing the titular Premier, and Malenkov took it. Khrushchev also stepped into Vyacheslav M. Molotov's field of foreign policy. Last autumn he and Bulganin led a Soviet delegation to Peiping. There he made a fighting speech about Communism's destiny in the world and Chinese Communism's destiny in the Far East.

Meanwhile, Khrushchev was in charge of a broad program to increase Russian agricultural production. It failed miserably. But he turned out to be strong enough to make Malenkov shoulder all the blame while in the process of stepping out of the Premiership.

The new boss prefers to exercise his power, as Stalin did for years, from his post as First Secretary of the Communist Party. And if mistakes are made, Bulganin—as with Malenkov and the agricultural fiasco—always is a handy scapegoat.

The Premier. Marshal Bulganin, 59, small, erect and grown paunchy, is a man of punctiliously good manners. He is cultured, a devotee of music and the ballet. His hair has grown white and so have his mustache and fastidiously clipped Vandyke beard. He wears his

. . . Bulganin's record: a competent administrator

marshal's uniform well, but is not a soldier. He is associated with the Army, has many close contacts there, but is first of all a politician.

After a better-than-average secondary schooling, Bulganin joined the party just before the 1917 Revolution, fought through it and the civil war. Then he received his real Communist indoctrination in four years with the Cheka, the secret police—years of running down and exterminating all foes of the Revolution.

From the Cheka, Bulganin went to the bureaucracy that was running the Soviet economy, eventually became manager of a highly important electrical-equipment factory. He distinguished himself by turning out his stint for the five-year plan then current in less than three years. He always has been considered an intelligent and competent administrator.

For six years Bulganin was mayor of Moscow and worked with the party bosses, including Khrushchev, in an effort to make the city a show place. In that period, he made his only journey outside Russia, to London. Later he headed the state bank and became a Deputy Premier. The German invasion gave him a long-time Army assignment.

As a military man, Bulganin is a politician in uniform. He once took a cram-school course in military subjects, but never has commanded troops or won a battle. His wartime assignment actually was that of top political commissar of the Red Army, a policeman's job of seeing that the fighting men were protected from strange ideologies.

The Bulganin appointment raises a question of the Army's part in Khrushchev's coup. Experts on Russia believe that this was minor, at most. But Bulganin, in the future as in the past, can provide valuable liaison between the Army and the Communist Party.

Trouble. Such are the new top men of Russia: Khrushchev to issue the orders, Bulganin to carry them out. They now face an inevitable struggle to maintain and increase their power. Trouble in Russia is called good news for the West. But the orders issued by the determined, dogmatic Communist, Khrushchev, are expected to prove quite the opposite.

For an objective study of the population, output and potential of the West versus that of the Communist bloc in Europe, see page 23. A close look at Russia's food troubles and her newest approach to them is on page 28.

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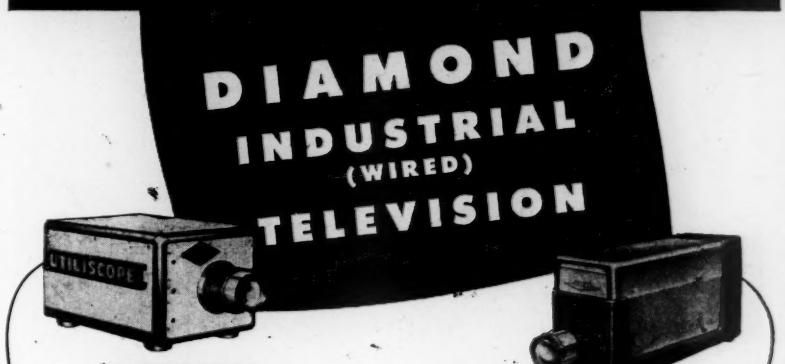

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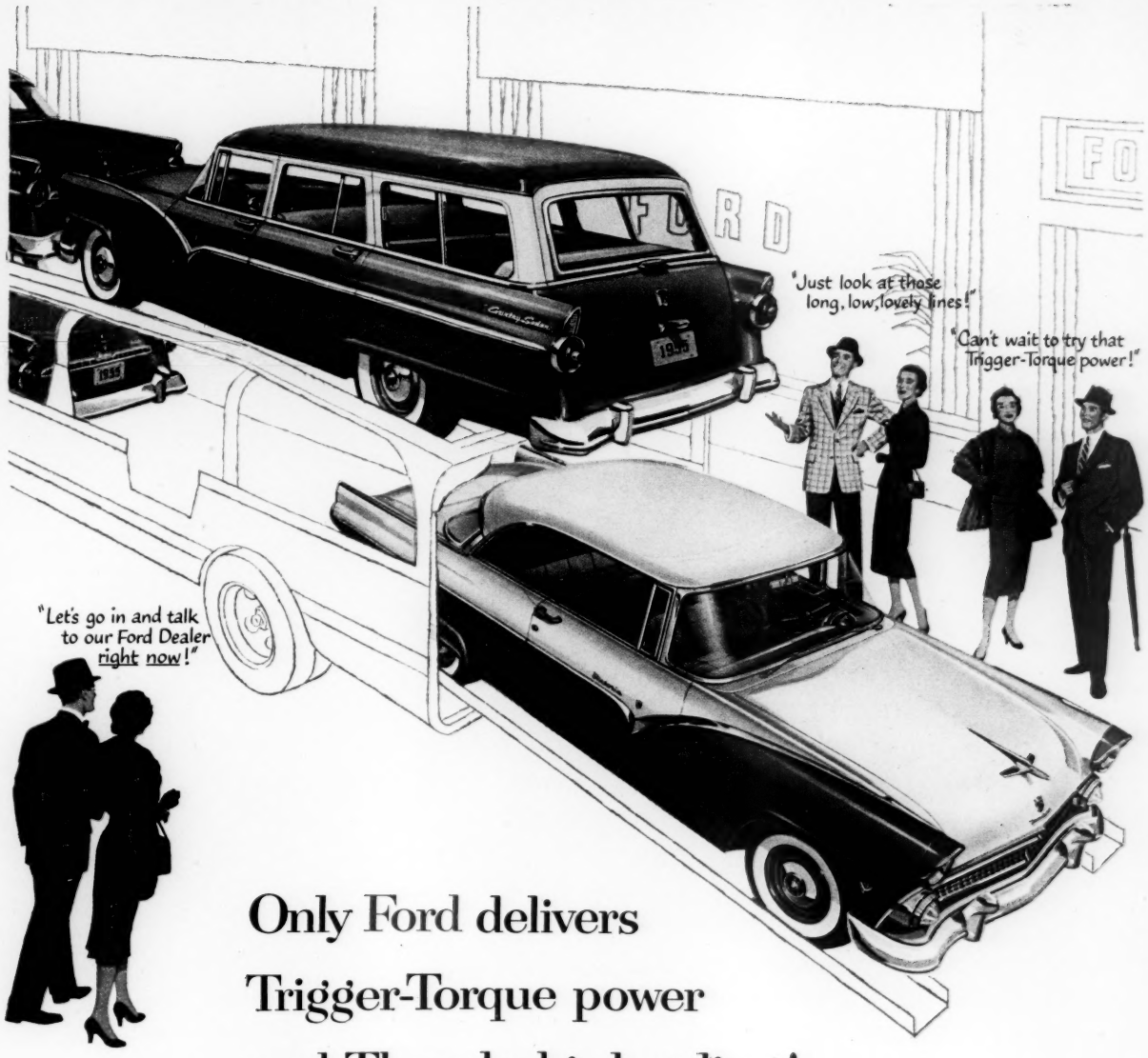
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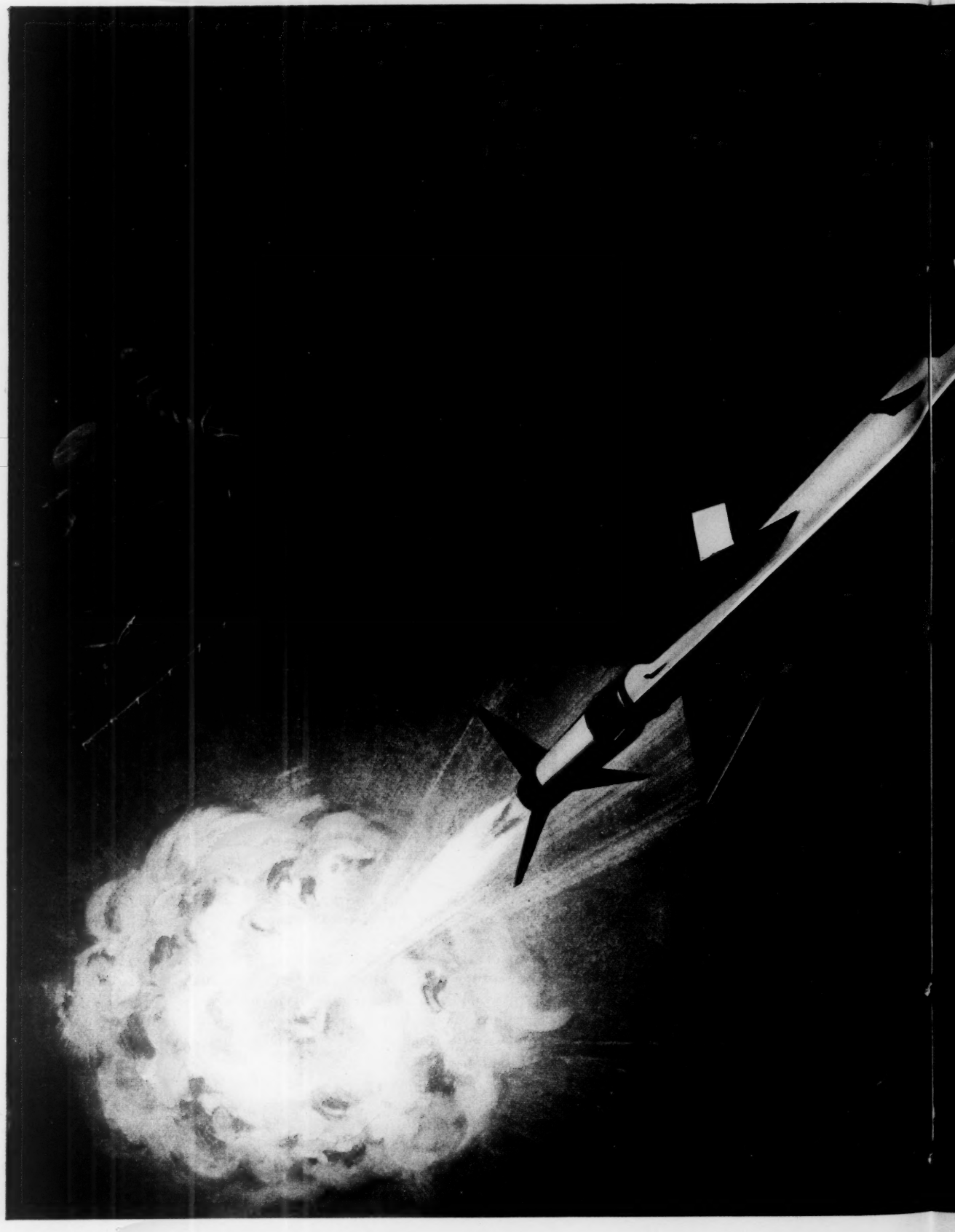

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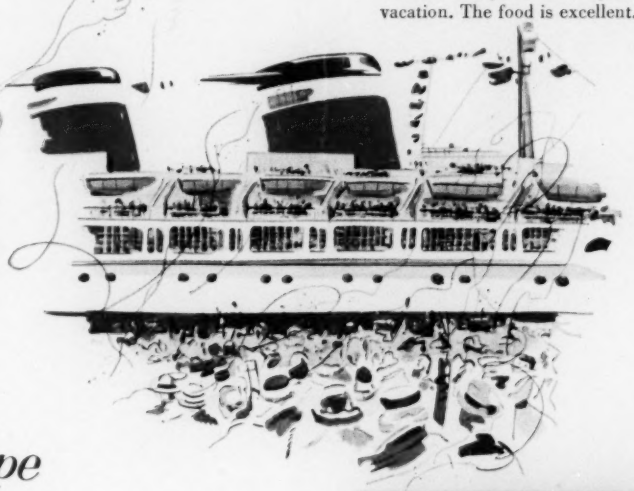

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We've Been Asked:

ABOUT GI SCHOOL AID NOW

- **Congress has changed the rules that govern education aid for men who serve in the armed forces. Some youths get a break. Others are left out.**
- **Eventually, Congress may provide scholarships for all veterans. There's talk of that approach.**

Is the boy who now enlists or is drafted for military service entitled to Government education aid after he leaves the armed forces?

No, he is not. For the youth who entered military service after Jan. 31, 1955, there will be no help from the Government in getting an education—unless Congress changes present rules.

Why has this aid been cut off?

Because President Eisenhower officially "terminated" the Korean war, as of January 31. GI education aid originally was extended to youths whose careers were interrupted by war in Korea.

Is there a chance of a new college-aid plan for future veterans?

Yes. A number of Congressmen are proposing federal scholarships for youths who serve in the armed forces at any time. There is nothing definite yet. It's something to watch for.

But hasn't Congress just changed some rules about GI education?

Yes. Congress has just given a break to boys who entered service just before the January 31 deadline.

These servicemen are getting the right to obtain the full amount of GI college aid that has been provided in the past. Under original rules, military service after January 31 could not be counted in computing college aid. Under the amendment that Congress has approved, every youth who entered the armed forces before midnight, January 31, will be entitled to 1.5 months of aid for each month of service, up to a top of 36 months of college aid.

So service after January 31 can soon be counted in figuring college aid?

Yes, but only for those who began service prior to midnight, January 31. "Service," for draftees and volunteers alike, begins when a youth is sworn in.

Has the new rule been enacted into law?

Congress has put final touches on the necessary legislation, and the White House has announced that it has no objection to the bill.

Why is Congress favoring youths who got into service before the deadline?

Because Congressmen feel that many youths volunteered for service, before the deadline, with the understanding that they would have a chance to qualify for educational benefits. The Congressmen believe that it would be a breach of faith to deny those youths the same amount of aid that had been available to men who served earlier.

Is college aid worth much?

It's practically a cash scholarship. The youth who takes advantage of it gets a cash payment for each month in which he's entitled to aid—$110 a month for a single man; $135 for a man with one dependent, such as a wife; $160 a month where there are two dependents, such as a wife and child, or dependent parents. That's the scale for veterans going to school full time. Payments are lower for part-time students.

What about on-job and on-farm training?

Rules for job and farm training are exactly like those for college training, as to who is eligible. But payments differ.

Is Congress providing new aid for veterans already in college?

No. There is no change in aid available to men already released from service.

Is service before the Korean war to be counted now, in computing college aid?

No. Only that military service occurring after June 27, 1950, is considered, in figuring veterans' education and training benefits under the Korean GI Bill of Rights.

How long will education or training aid be available to a veteran?

A youth has to start his educational program within three years after he leaves active duty, and it must be completed within eight years after his release to civilian life. The final deadline for any educational benefits under the Korean GI Bill of Rights, is to be Jan. 31, 1965, under the new rules that Congress is offering to veterans.

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Interview —with FORMER SOVIET SECRET AGENT

KHOKHLOV: KNOWS RUSSIA FROM INSIDE, TELLS WHAT COMES NEXT

The new change in the Soviet Government has a dangerous significance for the West. It means that the aggressive wing of the Communist Party is back in power. The Soviet Union now may push Red China into provoking more friction with the United States.

This is the analysis of a man who knows the Soviet regime from the inside. Nikolai E. Khokhlov was in the Soviet Intelligence Service for 13 years until 1954, when he balked at an assignment to supervise a murder and joined anti-Communist forces in the West.

Four weeks ago, in an interview published in the January 21 issue of *U. S. News & World Report*, Mr. Khokhlov foretold many of the new developments inside the Kremlin.

In the following interview, he tells what he thinks is going to happen now.

Q Mr. Khokhlov, when we interviewed you here last month for the January 21 issue of *U. S. News & World Report*, you really called the turn on what was going on inside the Soviet Union. Much of what you predicted then has already come to light, with Georgi M. Malenkov forced out of the Premiership and the Soviet Government officially announcing a return to the policy of stressing heavy industry instead of consumer goods.

Now, what we would like to know is this: What do these new developments mean? Do they bring the world nearer to war?

A In my opinion, the new developments in the U.S.S.R. represent a victory of a group of Communist Party people led by Nikita S. Khrushchev [First Secretary of the Communist Party's Central Committee]. This group believes that the interests of world communistic dogma should determine the whole internal life of the Soviet Union. That means that the private interests of the average Soviet citizen—his food, his clothes, his standard of living—should be sacrificed to build up the Soviet Union as an armed fortress of world Communism, ready to fight and to win the final decisive clash between the capitalist world and the communistic world.

Actually, this represents a turn back to the ruthless strategy of the late Marshal Joseph Stalin—and therefore, of course, increases the possibility of a new war.

Q Do you mean a war between the United States and the Soviet Union?

A Oh, no, not necessarily. Not immediately. I think that the Soviet rulers take into account that sooner or later they will have to fight. But why should they fight with their own hands when they can weaken the U.S. and the prestige of the U.S. through the people of China?

Q You mean that the Kremlin will try to start a war between the U.S. and China?

A I think that maybe the present Soviet regime is plotting to get the U.S. involved in a war with Red China. They will try to weaken the force of the United States through this war. And, at the same time, they will try to use this war to discredit the United States, to compromise the United States as an aggressor and in this way to force a split between the U.S. and her allies in Western Europe.

Q How will a war with Red China split the U.S. away from her allies?

A Well, look: Already the Labor leaders in England have been convinced that Formosa and the offshore islands are actually Chinese territory and that the U.S. is committing an aggressive act by interfering in China's internal affairs. If America gets in a war with Red China, the Communists will present it as American aggression.

Q Do the Soviet rulers think the U.S. will use atom bombs against Red China?

A Of course, they are afraid of atom bombs. But I think they believe—and I believe, too—that America will not use atom bombs against Red China. And Red China will not use atom bombs, either.

Q But what could China do in a war with the U.S.?

A China can fight. I don't think they will invade Formosa. I don't know. Maybe the fighting will be not so much in the military field as in the diplomatic field, trying to compromise the U.S. as an aggressor. And this creation of tension, this blackmail of the United States, is, of course, done with the approval of Moscow.

Q So what you are saying is that, with Khrushchev in power, the chances of China's provoking a war are greater than with Malenkov in power?

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Revival of a Ruthless Strategy . . . Plan to Push Red China Into War With U. S. . . . Bigger Urge for Revolution in Russia

A Very much greater.

Q How much will the Soviets help the Chinese in case of war?

A That is impossible to say. They will help, but I think only with the supply of armament.

Q Won't the Soviet Union have trouble getting armament over to China? They had trouble supplying the Korean war.

A That is China's problem. Khrushchev doesn't care about that.

Q You mean Khrushchev doesn't care how many Chinese are killed to get the U. S. in trouble?

A You know, China has almost 600 million people.

Q Then you think that the Soviet Union is behind this recent tough attitude of Red China?

A Yes, of course, at least the Soviet Union is co-operating with the Red Chinese. What is going on there now, with Formosa, is no doubt a part of a plan very carefully worked out between the new Soviet leaders and Mao Tse-tung [Red Chinese leader].

You remember that last October Khrushchev and the man he made the new Premier, Marshal Nikolai A. Bulganin, made a visit to Mao Tse-tung in China. I am sure that a kind of deal was made then.

Q What kind of deal?

A Well, I imagine something of this kind: Khrushchev would say: "Listen, Mao, I know you would like to get Formosa. All right, we will support you. Of course, not openly. But first we must get rid of this 'right wing' of our party in the Soviet Union—I mean Malenkov, and his nonsense about higher living standards and coexistence."

Q And what would Khrushchev get out of such a deal?

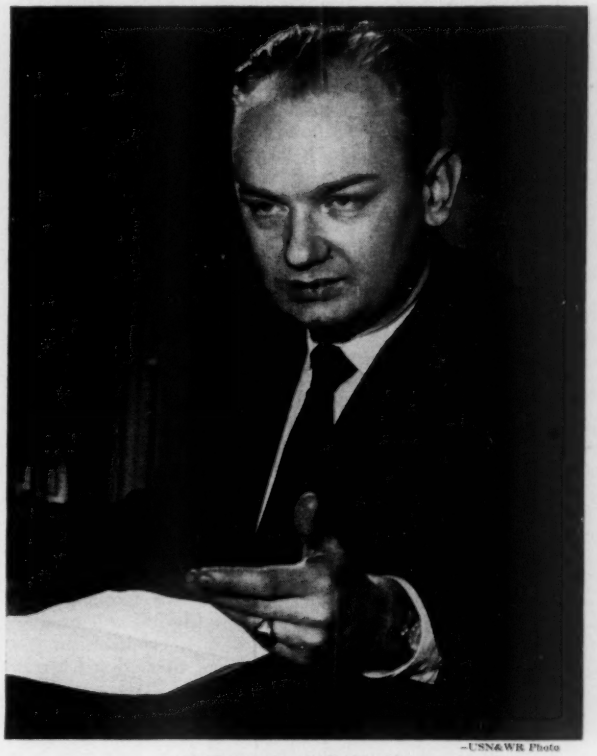
A Khrushchev is now in a position to use Mao and his Red Chinese armies in his own long-range program to destroy Western unity as a first step toward Soviet world domination. And Khrushchev apparently also got Mao's support in high Communist circles for his ambitious plan to push down Malenkov. I think Khrushchev bought his victory partly with the price of supporting Mao's dream of expansion.

As evidence that some such deal was made between Khrushchev and Mao, I remind you what happened right after this visit of Khrushchev and Bulganin to China in the autumn of 1954. Mao immediately opened his campaign against the United States by announcing his sensational spy charges against 11 American fliers and by aggressive actions in the Formosa area. And Khrushchev, at the same time, started his open campaign against Malenkov's group.

Q How was Khrushchev able to win this fight against Malenkov?

A Maybe one of the main factors which helped Khrushchev to victory was the bad internal situation inside the Soviet Union.

Q How bad is the internal situation?



—USN&WR Photo

NIKOLAI E. KHOKHLOV

A Well, after Stalin's death, Malenkov's Government promised the people so much for better life. He claimed that now life would be all milk and honey. But, instead of getting better, things got worse. I know that today even in Moscow the average person cannot easily get meat, cereals and other elementary food supplies. Especially in the last few weeks the food shortage has become a crisis.

Q But Khrushchev's heavy-industry policy will not help this situation, will it? How could he use this food shortage to overcome Malenkov, who was the one who promised to improve conditions?

A Well, Khrushchev could say to the Central Committee: "So, comrades, what can Malenkov actually do? Can he give clothes to the people? No. Can he give food to the people? No. But, the worst thing is he cannot even give the people a

(Continued on next page)

. . . "Khrushchev is not so smart a man as Stalin"

reason for not having food and clothes. I, at least, with my new turn to a world goal higher than daily comforts, can give the people a reason why they have to sacrifice."

Q Make the people believe that it is more important to build arms instead?

A Yes. That's the psychology of the whole thing. You will see now that the Soviet Union will increase its program of hatred against the West.

Q Why?

A Because if you must persuade the Soviet citizens to sacrifice their living standards, their clothes, their food, their cars, to push heavy industry, then you have to convince them that there is a danger that makes this sacrifice necessary.

You must convince the Soviet people that they are one day going to have to fight, because the West is an aggressive enemy. This is an old trick, one that Stalin has used many times. And now, once again, it has been proven that there is only one way to maintain the Soviet system—only one way—and this is by using the idea of inevitable conflict between the Soviet state and the Western democracies.

Q But wouldn't it be simpler for the Soviet rulers to win the support of the people by giving them a better life?

A They cannot. By the economic structure of a Communist state, it is practically impossible to provide a high level of living.

A REVOLUTION SOONER?—

Q So now the people are in charge who believe that a conflict with the West is inevitable?

A Yes, Khrushchev is one of those people, and so is Bulganin.

Q What kind of a man is Khrushchev? What is his objective?

A I can only read to you a statement that Khrushchev made 19 years ago, in 1936. Khrushchev said: "In the Stalin epoch, the epoch of victorious socialism, the working class under the leadership of our great leader [Stalin] will conduct a far-reaching battle for the final victory of Communism and for its triumph the world over." I do not think that Khrushchev has changed his views since then.

Q So, with Khrushchev now in the saddle, the prospect for the Western world is worse?

A In many ways, yes. But, between us, in one way it is actually a very good thing for us. I mean us anti-Communists. Because this turning of Khrushchev back to the Stalin policy is something that will make a revolution possible much sooner.

It is like an illness. If it stays chronic, then a patient can keep alive five or 10 years. He dies very slowly, with much suffering. But, with Khrushchev's policy, this illness in the Soviet Union can become acute.

Q How are the new rulers going to convince the Russian people that it is better to have heavy industry and maybe war than to have light industry, consumer goods and peace?

A My own opinion is that it will be very hard to convince them.

Q Do you think that Khrushchev will start a terror regime such as Stalin had?

A He will have to eventually, sooner or later.

Q Is he as ruthless as Stalin?

A He tries to be. But Khrushchev is not so smart a man.

Q Is Khrushchev popular among the people?

A It is difficult for me to say. But I would say that, if he is popular now, he could very soon become unpopular.

Q Why is that?

A First, he talks too much. And, when he talks, he does not say enough that is worthwhile. He sells himself cheap in his speeches. He tries to talk familiarly with the people, and the people are very sensitive about that. They will see immediately that he is trying to charm them—and in a cheap way.

And, most important, his program of heavy industry instead of consumer goods will not find approval among the people.

Q What about Bulganin, the new Premier? Is he simply a stooge for Khrushchev?

A I don't think he is only that. But, at the same time, I don't think Bulganin will be his own boss. Of course, he is more a figurehead for Khrushchev.

Q Why did Bulganin become Premier instead of Khrushchev?

A Because Khrushchev is the First Secretary of the party's Central Committee. If he should also take the place of Premier at the same time, there will be raised the question again of a dictator. The people will become suspicious. And the position of First Secretary of the Central Committee is the really powerful position—the one that Stalin used to make himself the strong man. So why should Khrushchev take the post of Premier himself when he can place his right hand there and get the same thing?

Q So now Khrushchev does not lay himself open to the charge of being a dictator?

A No. But actually he will be dictator. It will be very easy for him to exercise his power through Bulganin, because Bulganin is a pure professional party man, absolutely indoctrinated the same way as Khrushchev.

Bulganin is also shortsighted about the future like Khrushchev, blinded in the same way by party dogma.

Q In most American newspapers, the appointment of Bulganin as Premier was regarded as a surprise. What do you think about it?

A I think it was not a surprise at all. In my interview with your magazine last month I indicated Bulganin as the second man in Khrushchev's group. Bulganin was always devoted to the "party dogma" group. Remember, also, that Khrushchev took Bulganin with him on his trip to China last year. It was evident that, when Khrushchev's group should come to power, he would make Bulganin one of his first assistants.

NO MORE POWER FOR ARMY—

Q Bulganin is a marshal of the Army. Does this mean the Army is gaining power in the Soviet Government?

A One thing I want to make clear: Bulganin doesn't represent the armed forces, as many people seem to believe. Bulganin is a marshal. But he is not actually a military man. He is a party man, a politician. Actually, he represented the party's Central Committee in the Red Army.

Q Then the Army is no more powerful now, under Khrushchev and Bulganin, than it was under Malenkov?

A That's right.

Q But what about the rise of another military man, Marshal Georgi K. Zhukov, who has now been made Minister of Defense to suceed Bulganin?

A There are two explanations for this: One is to boost the morale of the millions of Soviet soldiers by honoring their

hero, Zhukov. Another is to have, at this time, when there is a possibility of a war or very complicated military operations abroad in helping Red China, a proven smart and experienced military leader like Zhukov in this important post.

Zhukov's appointment gives more evidence that the Soviet rulers are taking seriously the eventuality of a war. Zhukov was for a long time in disfavor, and he would not be called back now if they did not think that his military skill may be needed.

Q Besides Bulganin, who are Khrushchev's top assistants?

A I would like to give you a name that has not been much mentioned, but who may have played a top role in preparing the victory for Khrushchev. This man is Col. Gen. Ivan A. Serov. He could now be considered the right hand of Khrushchev because he is the head of the Committee of State Security.

SHIFTS IN SECRET POLICE—

Q How does this Committee fit into the picture?

A To explain this, we have to go back to April, 1953, a month after Stalin's death. At this time, power automatically came to a group which had the MVD [secret police] in their hands. Who were in this group? They were Lavrenti P. Beria [the late secret-police chief], Malenkov and other people who belonged to a group which believed in serving the Soviet state first instead of sacrificing its interests for the dogma of world Communism. This group was willing even to accept coexistence.

Q This group was opposed to Khrushchev's theories of party interests first?

A Yes, and the most dangerous man of this group, for Khrushchev, was Beria. So Khrushchev plotted against Beria, and he got him, through Malenkov. Khrushchev forced Malenkov to betray his former friend. Maybe he did it by blackmailing him with a fact that few people in the West know. This fact is that in the 1930s, when the bloody purge of the Communist Party was going on, three men were in charge of that purge. These men were Yezhov [the late Nicholas Yezhov, former secret-police head], Andrei Vishinsky [the late Soviet Representative in the United Nations] and Malenkov.

Beria himself made a mistake, in 1953, by openly accusing some MVD employes of using the same illegal methods of torture and terror against innocent men that were used by these three purge leaders. So Malenkov had no choice. Beria was arrested and shot.

In the meantime, Khrushchev succeeded in using the discrediting of the MVD to create a parallel secret-police organization called the Committee for State Security, headed by Serov. This Committee was directly under the control of the Central Committee, which Khrushchev headed as First Secretary.

Q How did this Committee help to unseat Malenkov?

A Khrushchev filled the Committee for State Security with men who shared his beliefs, including Serov. And he used this Committee to infiltrate the governments of the various republics of the Soviet Union. First he did this illegally. Then, in August, 1954, he got official permission to put a representative of the Committee in the government of every republic. Thus, Khrushchev got his own agents in all these governments. He got his own secret-police force, and his power spread day by day.

When time came to move against Malenkov, this secret-police force was a great help. And that is why Serov, who heads this secret-police organization, is now an important figure in the new regime.

Q What happens now to Malenkov?

A What they did to Malenkov shows how the methods of liquidating political enemies in the Soviet Union have changed. Twenty years ago, political enemies were tried and shot. This time it was enough for Malenkov simply to step aside, to step down into a lower job.

Q Why this change in handling "has-beens"?

A Because what happened in the Beria case has taught Soviet rulers that they cannot afford to discredit high officials too much immediately. They remember that the downfall of Beria did great harm to the prestige of the Soviet Government, and weakened the control of the police.

Q How does the change in the Kremlin affect Molotov, the Soviet Foreign Minister?

A I would say that Molotov is in a bad situation, because he was always identified with Malenkov. But Molotov is a diplomat, not only abroad but at home, too. And, now that Bulganin has taken the place of Malenkov, Molotov claims to be a personal friend of Bulganin. Molotov is trying to save his skin. And he is very skillful at this.

Immediately after Bulganin became Premier, Molotov made a speech about Soviet foreign policy. And he said something that, at first glance, looked very strange. He said that in a future war all humanity will not perish, but only the ruling circles of the capitalistic world. This was in sharp contradiction to the warnings of Malenkov that an atomic war would mean the end of civilization.

Why did Molotov change the picture of an atomic war that is presented to the Soviet people? I guess for the reason to relax the Soviet people and prepare them for the possibility of a war between U. S. and Red China.

This is another proof that the Soviet Union will support such a war.

SIGNS OF WAR PREPARATION—

Q Do you see any other signs that the Soviet Union is preparing for a war?

A Yes, many signs. I will mention, for instance, the new increase of 12 per cent in the Soviet military budget, the sudden raising of the amounts of forced state "loans" exacted from the Soviet people, and the long inspection trip that Khrushchev and Bulganin made last autumn along the Soviet Union's Far Eastern borders, where the military aid to China would have to go through.

Also, Khrushchev is urging the Soviet people to increase their birth rate. And I think that the aim of his program of sending thousands of youths into Siberia is not only to develop new farm land. He hopes that these youths, separated from their families and raised under sharp party control and education, will provide in Siberia a reservoir of fanatical young soldiers.

Q You said a while ago that now, under Khrushchev, the possibility is that a revolution may come sooner inside the Soviet Union. How could such a revolution come about?

A Well, you can call it revolution or an uprising. I prefer to call it the overthrow of the Soviet regime by the force of the enslaved peoples.

(Continued on next page)

. . . "West can win 'cold war' now without a shooting war"

Here we have to take into account the recent turn back to Stalin strategy—cannons instead of butter—and preparation for the final decisive fight against the capitalistic world. This strategy will not be approved at all by the common people in the Soviet area.

Q But do these enslaved peoples have the power to do anything against the regime?

A Some people in the West talk, mistakenly, about the Red Army as a force in the Soviet Government. Actually, the Red Army is a force, but not the way that these people think. The leading circles in the Red Army do not have any power against the party. But the millions of soldiers, common people with weapons in their hands, could be a main factor in the future overthrow of the Soviet system.

The Army is actually a reservoir for revolutionary forces. They will decide one day the success of the uprising of the enslaved people.

HOW TO STIR UP REVOLT—

Q Then, you do think that sometime the people will rise up?

A I firmly believe that one day it will happen. It may be very soon.

Q How can they do it?

A There is a clear but complicated answer to that question. It would take an entire article to explain it. Such an article might be entitled, "No War Needed to Win a War." Because you, the West, can win the "cold war" now without a shooting war—no atomic bombs, but no surrender, either. There is another way—a way that makes much more sense.

Q What is this other way?

A Support of the underground movement in the enslaved countries, including Russia.

Q You mean, to foment subversive activities inside the Soviet Union and its satellite countries?

A Well, first you should make clear to the enslaved peoples that you really understand their burden, that you believe in their opposition to the inhuman system they live under, and that you sympathize with them.

Then, maybe, you should make clear a sharp difference between the Soviet Government and the people that it enslaves. Western people should understand that the vast majority of the people behind the Iron Curtain are opposed to the Communist regime—and this applies to the Russian people, too. There are many people in Russia who have sacrificed their lives in fighting against the system. Remember, there are 13 million people in concentration camps in Siberia. Millions in Russia have been killed.

Millions of other Russians also have realized now what the Soviet system means. Recognize them as your allies, which they actually are, and you will save humanity from another atomic war.

Q What effect is the new change in Soviet leadership going to have on the Communist satellite countries? Do you think it is going to be tougher for the satellites now? Or easier?

A Not easier. And the prestige of the Soviet Government will fall once more among the satellites.

Q What do you think is going to become of Marshal Tito of Yugoslavia?

A Here we must remember the little-known fact that Malenkov was the man who helped Tito to become head of the Yugoslav Communists. He nominated Tito to Stalin. And, besides this, the tolerant viewpoint of Malenkov toward coexistence and independent activity of Communist parties abroad fitted very well with Tito's personal ambitions. So Tito was a supporter of Malenkov's group. Now, Moscow's relations with Tito should be worse.

Q Tito has been veering a little bit back toward Moscow lately. Will he come back toward the West now?

A It is difficult for me to say because I don't know the West's exact relationship with Tito. Of course, Tito would like to have good friends, but, in the end, he is a Communist above all.

Q What is the significance of the recent resignation of Anastas I. Mikoyan as minister in charge of food supplies in Malenkov's Government and his later appointment as Deputy Premier to Bulganin?

A What happened to Mikoyan is not absolutely clear to me. Mikoyan actually always was in the group of Malenkov. But I think it was not by chance that Khrushchev took Mikoyan along with Bulganin on that trip to China last autumn. My guess is that Khrushchev wanted to get Mikoyan into his own camp because Mikoyan's name is very popular in the Soviet Union. For a long time, Mikoyan was actually the boss of the daily bread eaten by the average Soviet citizen. His name was associated with food. Moscow's biggest meat-packing plant is named after him.

Perhaps on this same trip to China Mikoyan refused to support completely Khrushchev's viewpoint. And, for this reason, immediately when Khrushchev began to gain final power, Mikoyan was forced to resign.

Apparently, after this, Mikoyan made a kind of deal with Khrushchev's group and got for this the very high-sounding but actually not-so-important post as Bulganin's Deputy.

WHO RULES RUSSIA NOW—

Q Now can you define for us just who is in the present ruling group headed by Khrushchev?

A I think in this group we could name the veterans of the "party dogma" line, as for instance, these names:

Khrushchev, Bulganin, Serov, Marshal Ivan Konev, Nikolai Voznesensky, onetime head of the planning committee of the Soviet Government, Marshal Alexander M. Vasilevsky, General Moskalenko, chief of the Moscow garrison, Semyon D. Ignatiev, onetime boss of the MVD, and, of course, many others.

Q How about Sergei Kuglov, the present head of the MVD?

A I told already how Khrushchev created his own secret-police force. Actually, today in the Soviet Union there are two organizations with the job of secret police. Well, logically, the MVD and Kuglov now should be pushed down to make place for complete control of internal Soviet life by the new KGB (Committee for State Security) headed by Serov.

Q What about Klementi E. Voroshilov? He's the President of the Supreme Soviet. How does he fit in?

A Oh, he doesn't matter much. He is an old jovial *bon vivant* who always goes with the group in power.

For excerpts from a speech in Peiping last autumn by Nikita Khrushchev, Russia's Communist Party boss, in which he urged China to challenge the United States, see "U.S. News & World Report" for Feb. 4, 1955, page 63.

What Reds' New Bosses Say of U.S.

Khrushchev: "Good People" . . . Zhukov: "Hope to Visit"

Just before the big overturn in Moscow, two of the men now emerging on top in the Soviet Union expressed themselves on the U.S. and its leaders, on America in general and the outlook for war or peace in the world.

Nikita Khrushchev, regarded as the real power in Moscow, and Marshal Georgi Zhukov, new Defense Minister, were interviewed by the American publisher, William Randolph Hearst, Jr., his editorial assistant, Frank Conniff, and by Kingsbury Smith, European General Manager of International News Service.

The quotations that follow are from the Zhukov and Khrushchev interviews, world copyright by International News Service.

Marshal Zhukov ***on President Eisenhower:*** "In 1945 I had a talk with General Eisenhower before he left Germany for the United States.

"We exchanged best wishes and General Eisenhower said the United States would never attack the Soviet Union. I said the Soviet Union would never attack the United States. I consider I was not wrong in what I said and I hope General Eisenhower was right in what he said."

On visiting the U. S.: "I was invited twice by General Eisenhower to visit the United States. I was very grateful for those invitations. It has always been my dream to visit the United States. . . .

"I fear that relations between our two countries now are not quite suitable for such a visit, but I certainly hope to go someday."

On nuclear weapons: ". . . We must prohibit the use of these weapons. We must do so in the interest of humanity."

On U. S.-Soviet relations: "You are bound to justify your point of view. We are bound to justify ours. We must not simply look for justification of our respective viewpoints. We must try to make a new war impossible."

On the future: "I know our relations will get better. Then I hope to be able to visit the United States."

Nikita Khrushchev ***on America:*** "There are a great many good things in America which merit our copying. And I think Americans could find many good things in the U.S.S.R.

"That refers not only to agriculture but to industry and other fields as well. In those fields, too, there are a great many things in America that merit our copying."

On the Formosa crisis: "We are interested in peace and we are prepared to do what we can to find a solution to this issue and prevent the conflict from developing into war.

"If America shows common sense—and I have no doubt about the common sense of China—I believe that with the participation of other countries interested in peace it may yet be possible to avert war."

On the Korean war: "Interference did not serve to enhance the prestige of the U. S. It is well the end has come to that war and that the fire was put out.

"We do not want a fire to start anywhere else."

On the arms build-up: "You believe that we are to blame and we believe you are to blame for these conditions because you are establishing bases around our territory and trying to talk from positions of strength.

"It is a concept proclaimed by [British Prime Minister Sir Winston] Churchill and repeated by [U. S. Secretary of State John Foster] Dulles and others.

"I believe the production of guns or atomic bombs is the result of abnormal relations that have developed and I must say that they do not form the wealth of the countries."

On the balance of power: "We do not believe it would be right for us to be stronger than America or the bloc America has formed.

"We recognize that each nation has the right to think of its security and build up its forces in order to guarantee that security.

"That might be termed balance of power and I should think that the conception is more or less correct. But Churchill and Dulles have put out the concept of positions of strength and not balance of power.

"That means that one position should be stronger than another and that one of the parties forms positions of strength in order to enforce its will on the other side by constantly developing and building up its forces, and that would simply raise the temperature.

"I believe this is a vicious kind of policy because within it there always is the possibility of a showdown through war."

On U. S.-Soviet relations: "America is a good country with good people and we want nothing from them.

"On the other hand, is there anything America wants from Russia?

"It is impossible to get anything from the U.S.S.R. by blackmail or through threats. If it is possible to get something from us, it can be done by trade and normal relations.

"We should seek to develop normal, businesslike trade relations so that in time they might be strengthened and transformed into friendly relations.

"A conflict of any kind is certainly not in the interest of our nations."

What President Eisenhower said about Marshal Zhukov, Page 88.

THE FIZZLE IN EAST-WEST TRADE

Reds Are Long on Talk, Short on Performance

The big markets offered the free world by the Communists dry up fast when it gets down to doing business with them.

Despite all the talk, East-West trade is still just that—mostly talk. Idea that there are Iron Curtain buyers for everything anybody wants to sell is turning out to be a myth.

Trade across the curtain is only 2 per cent of world total.

LONDON

The long-talked-about boom in Western trade with the Communist world turns out to be a dud, now that the figures are coming in. The idea that Russia and her satellites offer big, attractive markets for the products of the West isn't being borne out by the facts.

Changes in the free world's embargo list last August theoretically made it possible for Communist countries to buy about 40 per cent of the commodities once denied them as "strategic." Immediately there was a rash of rumors that Communist buyers were snapping up goods in the West.

Now, after six months, however, it is possible to see what actually has happened. A 15-nation committee of trade experts in Paris can detect no significant boost in Com munist buying. U. S. official figures show that East-West trade still accounts for only 2 per cent of the world total. The vast market dangled before the free world as bait by the Communists vanishes when it comes right down to the business of buying and selling.

Instead, the Communists are having trouble paying for the little they do get out of the West. Eastern Europe hasn't found a way to increase its own exports enough to pay for its purchases.

Few contracts. All that has happened so far is that the Russians have *talked* of placing large orders for such things as British machine tools and industrial equipment. They have bought some copper wire. But, otherwise, they have signed few new contracts.

The big problem the Communists face is how to boost their own sales abroad so they can pay for the goods they want. They would like to sell machinery, vehicles and other manufactured goods. But now that Western Europe is booming, their sales difficulties are increasing. Competition is stiff. Soviet goods—often overpriced and shoddy—no longer are needed in the West.

In addition, Communist trading practices get in the way of business. Western businessmen, trying to come to terms with potential customers in Eastern Europe, have to deal with huge government monopolies operating on rigid plans. They run into long arguments over such things as prices and delivery dates

Germany. Some West German businessmen who recently visited Moscow on a selling trip returned without orders. The trouble was that Soviet officials, when it got down to cases, could offer nothing to trade in exchange for the German products they wanted to buy The Germans have had similar experiences trying to develop the China market.

Italy. Sales by Italy to the Communist countries, including China, are running at a rate almost 10 per cent higher than a year ago. Still, the total value amounts to only 4 per cent of Italy's export business.

Most Italian sales to the Soviet bloc consist of machinery, textiles, chemicals and citrus fruit. In the machinery and metals fields, which have always been high-cost industries in Italy, the Communists are the country's primary market because up until now they have been willing to pay the high prices asked.

Nevertheless, Italian trade with the Communists is falling short of targets Italian negotiators are in Moscow talking about contracts now, but no deals have been signed.

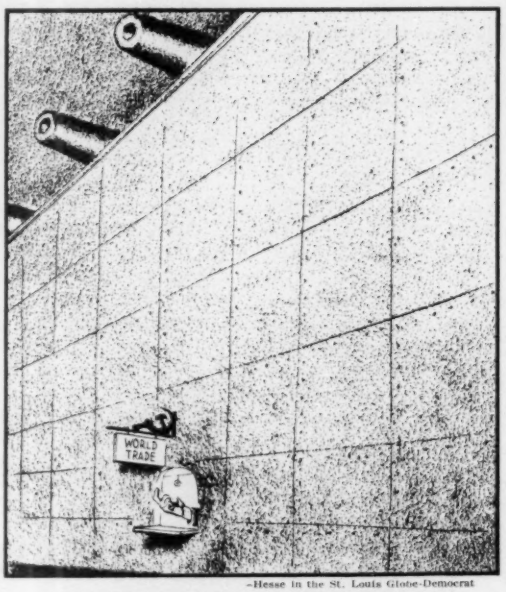
Britain. So far as can be judged in Britain, there is a pickup in the prospect of sending the Communists more of the goods they want, but actual deliveries still seem to be fairly moderate. Russia in the last year has placed orders for 20 fishing trawlers that will cost 17 million dollars, but it will take the British years to deliver these vessels. In terms of money, shipments by Britain to Russia in 1954 were about the same as the year before.

Far East. On the other side of the world, there has been a spotty—but certainly not sensational—rise in trade among the Asian countries with Communist China. With the exception of rubber from Ceylon, very little of this trade is in strategic goods.

Asians run into the same troubles the Europeans encounter in dealing with the Communists. Both Russia and China eagerly sign trade agreements. The agreements generate a lot of enthusiasm when signed, but the final performance rarely lives up to the promise.

Reports persist that a big volume of contraband shipments in strategic materials is finding its way into the Soviet world—but the Allied trade experts stationed in Paris can find no evidence of it. Actually, they say, controls are working more effectively now than before the embargo list was revised.

As a result, Western intelligence agents who specialize in economic affairs say that the volume of underground trade in strategic goods has fallen off substantially since last August. And the vast legitimate markets the Communists keep talking about have so far failed to materialize.



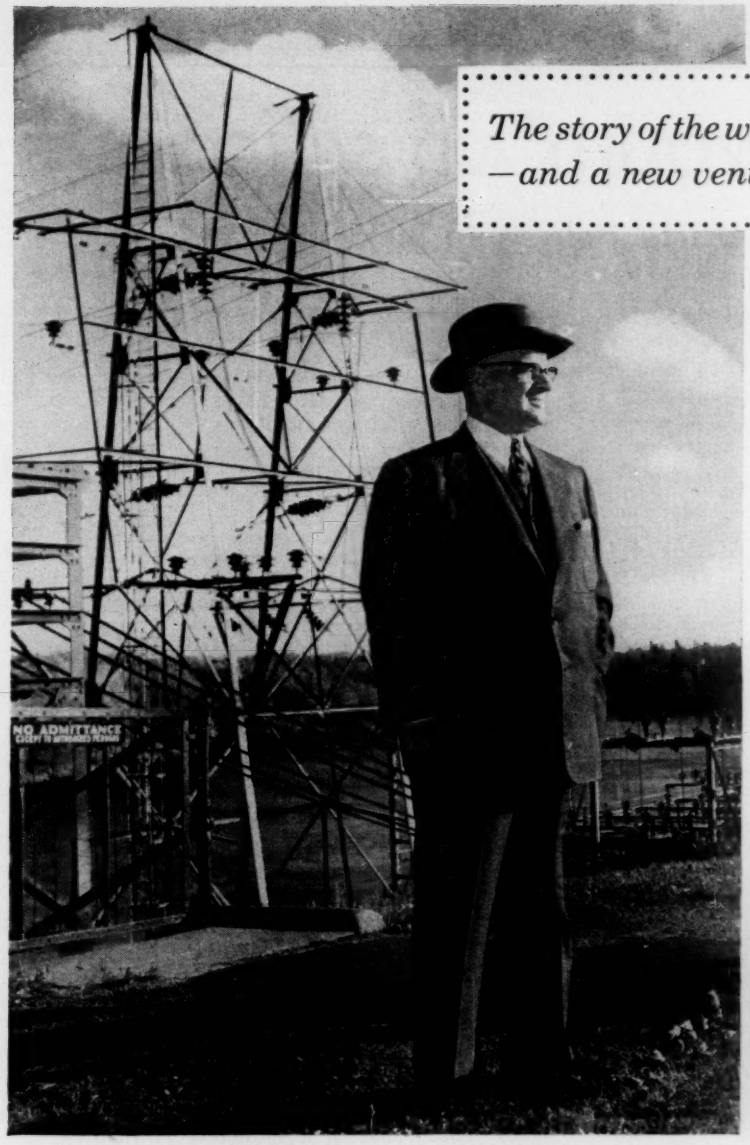
—Hesse in the St. Louis Globe-Democrat

"AN OPENING IN THE IRON CURTAIN"
Not much goes through it

The story of the world's hardest working river —and a new venture— in Wausau, Wisconsin

Wausau Story

by **ROY C. INGERSOLL,**
President, the Borg-Warner Corporation



..."at heart, a source of tremendous power"...

"I STOOD there on the banks of the river ...the *Wisconsin*. Just a few miles back it is quiet and peaceful, supplying pleasure for northern fishermen. But around a bend or two it becomes, as they say, the world's hardest working river, supplying power for all Wausau industry.

"I couldn't help thinking that Wausau is like its river. Outwardly serene. But, at heart, a source of tremendous power.

At Borg-Warner's Wausau plant . . . Mr. Ingersoll, Plant Manager Zimmer (left) and J. H. Ingersoll. (Back) John Papa

"Our company recently established in Wausau a new plant which makes turrets for amphibious tanks. Why Wausau? Its location is part of it, of course. There aren't many places where you can look out of a factory window and see deer munching grass in a deer grove across the way!

"But there is something else in Wausau we like even more, Wausau *people*. People who come to work *expecting* to stay until the job is finished. People who, to make our venture a success, worked overtime, even when all the equipment wasn't there. You hear about the American way of business. It's folks like those in Wausau—businessmen and workmen—who make it that way. Good people to have working for you. Good people to do business with."

Employers Mutuals of Wausau are "good people to do business with"

Mr. Ingersoll tells of a "Wausau personality"—people who go out of their way to do a job right. You'll find this spirit very much in evidence in talking with the folks of Employers Mutuals in any of our 89 offices.

Our specialty is **workmen's compensation** insurance. Here, particularly, you'll appreciate the "Wausau way." It means a claim service unexcelled for speed and fairness. And an accident prevention program that can reduce not only your insurance costs but operating costs as well. In every case you deal *directly* with our field people.

Talk it over with a Wausau man. We write all lines of fire and casualty insurance—including, of course, automobile. Phone our local office, or write to us in Wausau.

Employers Mutuals *of* Wausau

HOW IKE WOULD AID SCHOOLS

Three Plans to Help With Building

Following is full text of a message sent to Congress by President Eisenhower on Feb. 8, 1955:

TO THE CONGRESS OF THE UNITED STATES:

For the consideration of the Congress, I herewith propose a plan of federal co-operation with the States, designed to give our school children as quickly as possible the classrooms they must have.

Because of the magnitude of the job, but more fundamentally because of the undeniable importance of free education to a free way of life, the means we take to provide our children with proper classrooms must be weighed most carefully. The phrase "free education" is a deliberate choice. For unless education continues to be free—free in its response to local community needs, free from any suggestion of political domination, and free from impediments to the pursuit of knowledge by teachers and students—it will cease to serve the purposes of free men.

State and Local Responsibility For Education

A distinguishing characteristic of our nation—and a great strength—is the development of our institutions within the concept of individual worth and dignity. Our schools are among the guardians of that principle. Consequently—and deliberately—their control and support throughout our history have been—and are—a State and local responsibility.

The American idea of universal public education was conceived as necessary in a society dedicated to the principles of individual freedom, equality, and self-government. A necessary corollary is that public schools must always reflect the character and aspirations of the people of the community.

Thus was established a fundamental element of the American public-school system—local direction by boards of education responsible immediately to the parents of children and the other citizens of the community. Diffusion of authority among tens of thousands of school districts is a safeguard against centralized control and abuse of the educational system that must be maintained. We believe that to take away the responsibility of communities and States in educating our children is to undermine not only a basic element of our freedom but a basic right of our citizens.

The legislative proposals submitted to the last Congress were offered by the Administration in the earnest conviction that education must always be close to the people; in the belief that a careful reassessment by the people themselves of the problems of education is necessary; and with a realization of the growing financial difficulties that school districts face. To encourage a nation-wide examination of our schools, the 83d Congress authorized funds for conferences on education in the 48 States and the Territories and for a White House Conference to be held in November this year.

The Current Problem

These are the facts of the classroom shortage:

The latest information submitted by the States to the Office of Education indicates that there is a deficit of more than 30,000 classrooms, a legacy—in part—of the years of war and defense mobilization when construction had to be curtailed. In addition, to keep up with mounting enrollments, the nation must build at least 50,000 new elementary and high-school classrooms yearly. It must also replace the thousands of classrooms which become unsafe or otherwise unusable each year.

During the current school year, about 60,000 new classrooms are being built. Capital outlays for public-school construction will reach an all-time high of 2 billion dollars this year. During the last five years, new construction costing over 7 billion dollars has provided new classrooms for 6,750,000 pupils in our public schools. During that time more than 5½ million additional children enrolled in school. Thus the rate of construction has more than kept pace with mounting enrollment. But it has only slightly reduced the total classroom deficit.

As a consequence, millions of children still attend schools which are unsafe or which permit learning only part-time or under conditions of serious overcrowding. To build satisfactory classrooms for all our children, the current rate of school building must be multiplied sharply and this increase must be sustained.

Fundamentally, the remedy lies with the States and their communities. But the present shortage requires immediate and effective action that will produce more rapid results. Unless the Federal Government steps forward to join with the States and communities, this emergency situation will continue.

Therefore—for the purpose of meeting the emergency only and pending the results of the nation-wide conferences—I propose a broad effort to widen the accepted channels of financing school construction and to increase materially the flow of private lending through them—without interference with the responsibility of State and local school systems. Over the next three years, this proposed effort envisages a total of 7 billion dollars put to work building badly needed new schools—in addition to construction expenditures outside these proposals.

The Recommendations

1. Bond purchases by the Federal Government

The first recommendation is directed at action—effective as rapidly as school districts can offer bonds to the public for sale.

I recommend that legislation be enacted authorizing the Federal Government, co-operating with the several States, to purchase school bonds issued by local communities which are handicapped in selling bonds at a reasonable interest rate. This proposal is sound educationally and economically. It will help build schools.

To carry out this proposal, I recommend that the Congress authorize the appropriation of 750 million dollars for use over the next three years.

2. State school-building agencies

Many school districts cannot borrow to build schools because of restrictive debt limits. They need some other form of financing. Therefore, the second proposal is designed to facilitate immediate construction of schools without local borrowing by the school district.

To expand school construction, several States have already created special State-wide school-building agencies. These can borrow advantageously, since they represent the combined credit of many communities. After building schools, the agency rents them to school districts. The local community under its lease gets a new school without borrowing.

I now propose the wider adoption of this tested method of accelerating school construction. Under this proposal, the Federal Government would share with the States in establishing and maintaining for State school-building agencies an initial reserve fund equal to one year's payment on principal and interest.

The State school-building agency—working in co-operation with the State educational officials—would issue its bonds through the customary investment channels, then build schools for lease to local school districts. Rentals would be sufficient to cover the payments on principal and interest of the bonds outstanding; a payment to a supplemental reserve fund; and a proportionate share of the administrative expenses of the State school-building agency. In time, the payments to the reserve fund would permit repayment of the initial federal and State advances. When all its financial obligations to the agency are met, the local school district takes title to its building.

I recommend that the Congress authorize the necessary federal participation to put this plan into effect so that State building agencies may be in a position to issue bonds in the next three years which will build 6 billion dollars' worth of new schools.

3. Grants for school districts with proved need and lack of local income

My first message to the Congress on the state of the union stated the view that "the firm conditions of federal aid must be proved need and proved lack of local income." In my judgment, any sound program of grants must adhere to this principle. Some school districts meet the conditions. In them the amount of taxable property and local income is so low as to make it impossible for the district either to repay borrowed money or rent a satisfactory school building.

I now propose a program of grants-in-aid directed clearly and specifically at the urgent situations in which the Federal Government can justifiably share direct construction costs without undermining State and local responsibility. Under this proposal the Federal Government would share with the States part of the cost of building schools in districts where one of the following conditions is met:

(a) The school district, if it has not reached its legal bonding limit, cannot sell its bonds to the Federal Government under proposal 1 because it cannot pay interest and principal charges on the total construction costs.

(b) The school district, if it has reached its legal bonding limit, is unable to pay the rent needed to obtain a school from a State agency on a lease-purchase basis, as described in proposal 2.

The State would certify the school district's inability to finance the total construction cost through borrowing or a rental arrangement. It would also certify that the new school is needed to relieve extreme overcrowding, double shifts, or hazardous or unhealthful conditions.

The federal and State aid would be in an amount sufficient for a school district to qualify under either proposal 1 or proposal 2 for financing the remainder of the building costs. The requirement that federal funds be matched with State-appropriated funds is an essential safeguard to preservation of the proper spheres of local, State and federal responsibility in the field of public education.

By authorizing this program of joint federal-State aid to supplement the financing plans set forth in proposals 1 and 2, a workable way will be provided for every community in the nation to construct classrooms for its children. I recommend that the Congress authorize the appropriation of 200 million dollars for a three-year program.

4. Grants for administrative costs of State programs

In addition to immediate school construction, the nation needs to plan sound long-term financing of the public schools free from obsolete restrictions. Our State conferences on education will help accomplish this. Out of these meetings of parents, teachers and public-spirited citizens can come lasting solutions to such underlying problems as more efficient school districting and the modification of unduly restrictive local debt limits.

The Federal Government, having helped sponsor the State conferences on education, should now move to help the States in carrying out such recommendations as may be made. I propose, therefore, that the Federal Government furnish one half of the administrative costs of State programs which are designed to overcome obstacles to local financing or to provide additional State aid to local school districts.

For this purpose I recommend a total authorization of 20 million dollars with an appropriation of 5 million dollars for the first year of a three-year period.

This program is sound and equitable. It accelerates construction of classrooms within the traditional framework of local responsibility for our schools. It does not preclude other proposals for long-range solutions which undoubtedly will grow out of the State conferences and the White House Conference on Education.

Conclusion

The best possible education for all our young people is a fixed objective of the American nation. The four-point program, herein outlined, would help provide proper physical housing for the achievement of this objective. But the finest buildings, of themselves, are no assurance that the pupils who use them are each day better fitted to shoulder the responsibilities, to meet the opportunities, to enjoy the rewards that one day will be their lot as American citizens.

Good teaching and good teachers made even the one-room crossroads schools of the nineteenth century a rich source of the knowledge and enthusiasm and patriotism, joined with spiritual wisdom, that mark a vigorously dynamic people. Today, the professional quality of American teaching is better than ever. But too many teachers are underpaid and overworked, and, in consequence, too few young men and women join their ranks. Here is a shortage, less obvious but ultimately more dangerous, than the classroom shortage.

The conferences now under way and the massive school-building program here proposed will, I believe, arouse the American people to a community effort for schools and a community concern for education, unparalleled in our history. Taken together, they will serve to advance the teaching profession to the position it should enjoy.

Federal aid in a form that tends to lead to federal control of our schools could cripple education for freedom. In no form can it ever approach the mighty effectiveness of an aroused people. But federal leadership can stir America to national action.

Then the nation's objective of the best possible education for all our young people will be achieved.

DWIGHT D. EISENHOWER

The White House,
Feb. 8, 1955.

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News-Lines

What you as a businessman ☑ CAN and ☒ CANNOT do as a result of federal court and administrative decisions:

☑ **CAPITAL GAIN.** You can, as a cattle farmer, treat as a capital gain your profit from the auction sale of your top breeding animals at fairs and exhibitions. This income tax treatment of such gains is approved by the U. S. Tax Court.

* * *

☑ **TAFT-HARTLEY LAW.** You can probably count on the National Labor Relations Board to throw out charges of a union if an officer of the union says that his non-Communist affidavit was false. The Labor Board finds that a union official's admission in a union paper that his affidavit was untrue deprives that union of the right to appear before the Board.

* * *

☑ **TRADE RULES.** You can, as a manufacturer charged by the Federal Trade Commission with entering into unlawful exclusive-dealing contracts, compel your suppliers to produce records showing your relative position among the suppliers' customers. In this ruling, however, FTC says the suppliers need not disclose their customers' names or volume of business.

* * *

☑ **ADMISSIONS TAX.** You can, as operator of an advertising agency for booklets containing free passes to places of entertainment, forget about collecting an admissions tax on money paid to you. The Internal Revenue Service rules that no part of such amounts paid to an advertising agency is subject to this tax.

* * *

☑ **ALUMINUM.** You can look for the Government to take less of the country's output of aluminum in the second quarter of 1955. The Business and Defense Services Administration tells aluminum producers to set aside for the Defense Department and the Atomic Energy Commission 135 million pounds of the metal in the second quarter, 5 million pounds less than during the present quarter. This does not include aluminum for the Government's stockpile.

☒ **COLLECTIVE BARGAINING.** You cannot refuse to negotiate with the bargaining union in your plant just because a majority of the employes withdraw their authorizations for deduction of union dues from their pay. In this ruling NLRB says the illegality of the employer's action was emphasized when he solicited and aided employes in withdrawal of their authorizations.

* * *

☒ **NLRB JURISDICTION.** You cannot expect to escape jurisdiction of the Labor Board if your retail auto agency has out-of-State shipments worth more than $100,000 a year. This jurisdictional test is set up by an NLRB ruling.

* * *

☒ **INCOME TAX.** You cannot treat as a capital gain your profit realized by liquidating your rental housing through your firm's sales department, which conducted an active sales effort. The U. S. Tax Court rules this gain is taxable as ordinary income.

* * *

☒ **TAX DEDUCTION.** You cannot take an income tax deduction for the cost of maintaining your hearing aid even if the aid is essential for your business activities. The Tax Court holds that this cost is a nondeductible personal expense.

* * *

☒ **COPPER EXPORTS.** You cannot be sure of getting permission to export refined copper of domestic origin. Tightening up on shipments abroad, the Bureau of Foreign Commerce says export of this metal in refined form is approved if its origin is foreign, but not if it originated in the U. S.

* * *

☒ **FTC ORDER.** You cannot always count on a stay of a cease and desist order of the Federal Trade Commission just because you win the right from a court of appeals to present new evidence. A court of appeals rules that obtaining such a right does not automatically stay the original FTC order.

Conclusions expressed in these paragraphs are based upon decisions and rulings of courts and Government Bureaus. In making their decisions, courts and bureaus consider many facts which, for reasons of space, cannot be set forth in detail. U. S. NEWS & WORLD REPORT, *on written request, will refer interested readers to sources of this basic material.*

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84
PROOF

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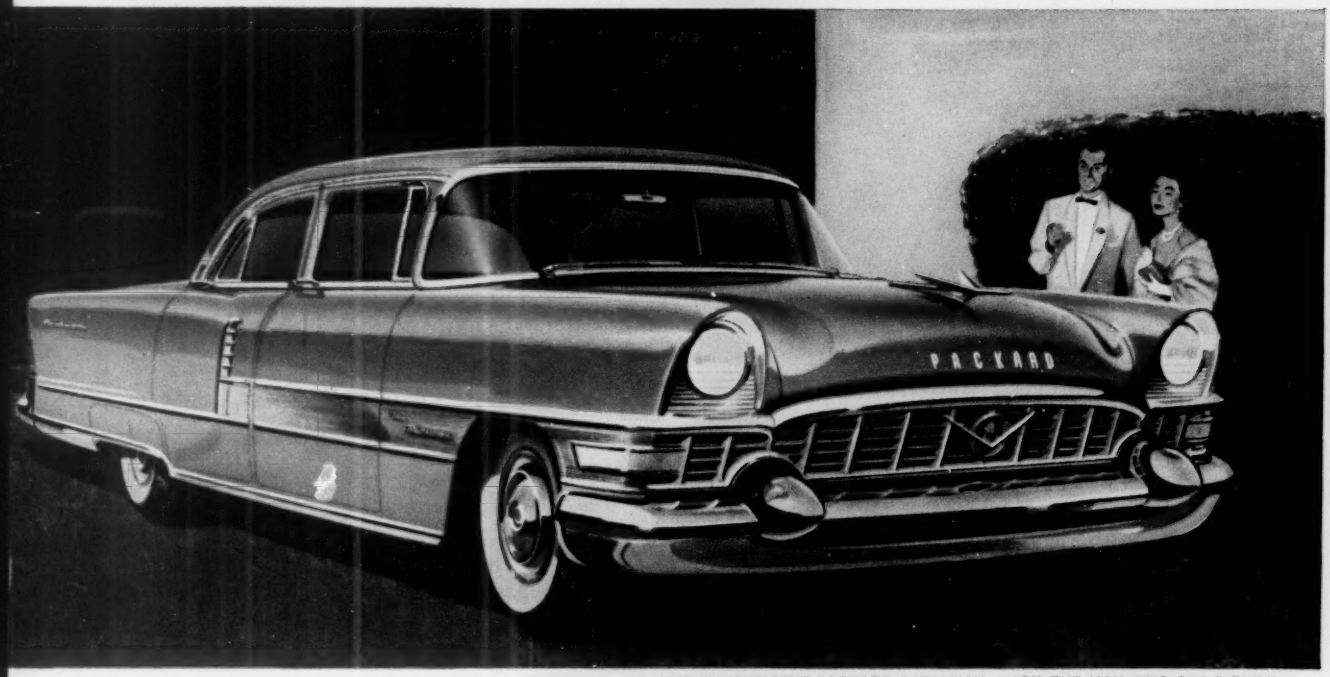

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Paid Informers in U.S.— They're Used All the Time

There is nothing new about paid tipsters and informers. Paying fees to catch law violators is older than trial by jury.

The practice covers the whole range from stool pigeons to expert witnesses. But nobody is getting rich at it.

Also: Most such witnesses testify reluctantly. And the few who give false testimony are exceptions, not the rule.

Two alleged ex-Communists who have been drawing witness fees from the Government for testimony about other alleged Communists have repudiated their testimony in recent weeks. First it was Harvey M. Matusow, then Mrs. Marie Natvig.

The story of individuals testifying for pay is raising a wide variety of questions. How much of it is going on? How much money is involved? What is the difference between such witnesses and paid informers?

A glimpse below the surface quickly discloses that paid informers are widely used in all law enforcement. Federal agencies frequently pay them $1,000 to $50,000 for their tips. The Internal Revenue Service once paid $80,000 for a tip on an income tax evasion.

Witnesses, however, make no such money. Frequently they are reluctant, taking the stand only because they have been subpoenaed. Occasionally they are underworld characters. Often they are among the most respected members of the community.

What they got. Mrs. Natvig, a 51-year-old grandmother, of Miami, Fla., was paid $9 a day for about 10 days of testimony before the Federal Communications Commission. The FCC says it has paid her no informer's fee. Her testimony was that she had been a Communist and that Edward O. Lamb, who is trying to get his Erie (Pa.) television-station license renewed, also had been a Communist. Last week she testified that all this was a lie.

Harvey Matusow drew from Government sources about $2,509 between 1951 and 1954. Here's how he earned it:

For work as an undercover in-

(Continued on page 84)

What Government Pays Informers and Witnesses

- For a tip on income tax evasion, Internal Revenue Service has paid as much as **$80,000.**
- For a tip on dope peddling, Narcotics Bureau has paid **$20,000.**
- For tips on smuggling, Customs Bureau pays up to **$50,000.**
- For tips on counterfeiting, Secret Service usually pays **$25 to $1,000.**
- For a tip on moonshining, Alcohol Tax Unit has paid as much as **$600.**
- For testimony before Committee on Un-American Activities, House of Representatives pays witnesses **$6** a day.
- For testimony before Internal Security Subcommittee, Senate pays witnesses **$9** a day.
- For testimony before courts and boards, Department of Justice pays ordinary witnesses **$4** a day.
- For testimony by experts, Department of Justice pays **$10 to $200** a day.
- For testimony in cases involving aliens, Immigration and Naturalization Service pays up to **$25** a day.

NOTE: ***Witnesses also get transportation expenses.***

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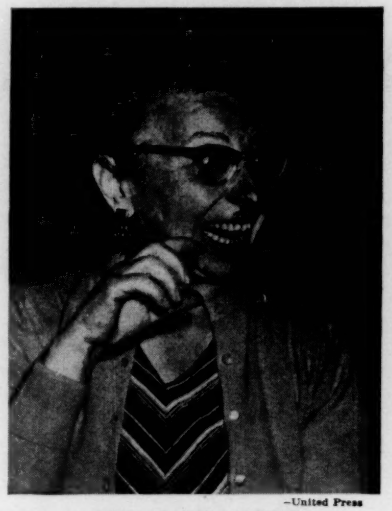
former during the last half of 1950, he got $325 from the Federal Bureau of Investigation.

For testimony, the Immigration and Naturalization Service paid him $75; the Ohio State Committee on Un-American Activities paid him $450; the Department of Justice paid him $1,407; the Senate Permanent Subcommittee on Investigations, when headed by Senator Joseph R. McCarthy, paid him $45; the House Committee on Un-American Activities paid him $108, and the Senate Internal Security Subcommittee paid him $99.

Who is willing. Congressional-committee officials say their ex-Communist witnesses often lose money while testifying, through loss of pay or other business opportunities. They say that no



—United Press

MRS. MARIE NATVIG
. . . $9 a day for 10 days

ex-Communists ever have volunteered to testify before their committees.

Even Harvey Matusow had to be compelled to appear when he first testified before a congressional committee. But he says in time he grew to enjoy the headlines and public attention.

Informers, however, are usually only too willing to make a fast dollar by telling what they know about their underworld associates. Many are stool pigeons, reporting on dope peddling, counterfeiting, smuggling and other crimes.

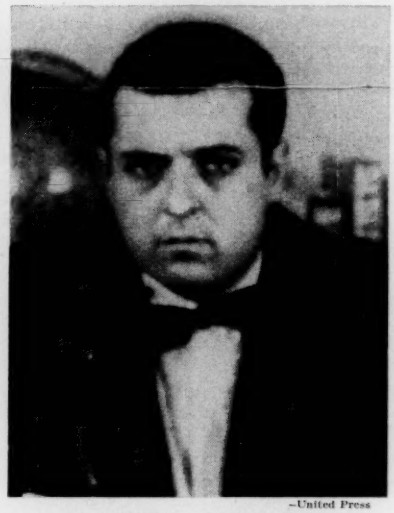
Some informers, however, are of a very high type, in the opinion of officials of the FBI. They refer to persons such as Herbert A. Philbrick. They point out that he, with great reluctance, consented as a patriotic duty to join the Communist Party as an FBI agent. They express admiration for another informer, a Negro minister, the Rev. Obadiah Jones, who

also worked within the Communist Party for the FBI. In the eight years he was engaged in this work, he received $11,210 from the FBI—less than $1,500 a year.

Harry Sawyer, the German-American who enabled the FBI to break the German saboteur ring in World War II, drew $250 a month for his aid.

Government prosecuting attorneys make a wide distinction between typical informers and witnesses. If they can avoid it, they never bring underworld characters into court or into any public hearing. Defense attorneys would question their veracity or motives. Judges and juries would be prejudiced against their testimony. So witnesses who are produced in court are usually considered respectable persons.

Police and other enforcement officials



–United Press

HARVEY M. MATUSOW
. . . $2,509 in 4 years

look with constant suspicion at their underworld contacts. They pick the brains of these tipsters for what they can get, meanwhile continually back checking and testing their information.

Tipsters' pay scale. Each Government enforcement agency has a different rate for its informers, different uses for them, different ways to handle them. The FBI and a few other units keep some informers on the payroll for years. Most informers, however, are paid by the piece—so much for each tip.

Here's how some of the agencies deal with their informers:

The Narcotics Bureau makes extensive use of informers, having them purchase drugs for evidence, mingle with the peddlers, report on dope shipments. It pays usually from $25 to $5,000 for a tip, but has paid as high as $20,000.

(Continued on page 86)

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The price depends largely on the size of the operation exposed.

"We wouldn't get anywhere in our work if we didn't use paid informers," says George W. Cunningham, Deputy Commissioner. "No law enforcement agency could get along without them. The Sherlock Holmes stuff is a lot of nonsense. You don't solve crimes by sitting in front of your fireplace examining evidence and reading books."

The FBI has a wide range of prices for tips and salaries for informers. The best-publicized payment was the $5,000 given the "Lady in Red" for her tip that led to the cornering of John Dillinger outside a movie theater.

The Internal Revenue Service pays informers the biggest money of all Government agencies. But it has few dealings with the underworld. Its tipsters are usually disgruntled employes, spiteful business associates, angry ex-wives, cast-off sweethearts. Fewer than half of them ask for money.

Each payment is determined on an individual basis. A committee sets the amount, depending on the value of the tip. Usually the payment is somewhat less than 10 per cent of the value of the evaded tax which is recovered. The payments to tipsters have varied from $2.60 to $80,000.

In 1951, the last year for which there is complete information, the Internal Revenue Service paid $61,970 in rewards for information on income tax evasion. Payments were made to 121 informants. The service recovered $9,627,846 in evaded taxes as result of information from this number.

Smugglers' enemies. Informants for the Customs Bureau are a mixed group, part underworld, part ordinary folks—taxi drivers and bartenders on the Mexican border, trade associations on the Canadian border seeking to keep business practices clean, disgruntled servants, people bearing personal grudges, and some honest citizens who just want to help keep the Government from being cheated.

The Customs Bureau pays two ways for tips: either an agreed price or a "moiety." The latter is a legal arrangement for giving an informer 25 per cent of the value of the smuggled goods recovered through his tip. Most informers choose a cash tip, rather than go through a drawn-out legal process to claim a moiety. The most that can be given as a moiety is $50,000. The big payments by Customs go for tips on diamond and large-scale liquor smuggling.

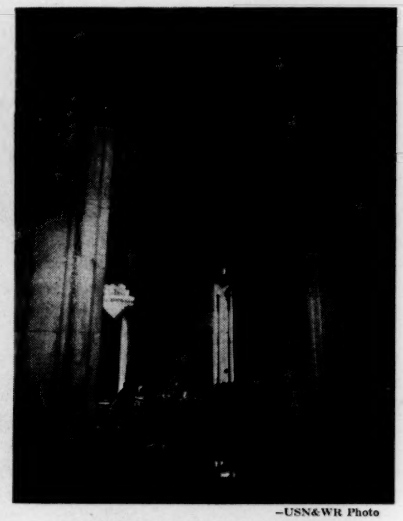
A large number of informers, some with underworld background, are used by the Immigration and Naturalization Service. They are paid from $5 up for tips.

The Secret Service has $25,000 a year to spend for tips on counterfeiting.

The Alcohol Tax Unit gets some of its information on illegal stills and liquor sales from the underworld, but its officials say they dig up most of their "leads" through their own analyses of business operations.

Witnesses' pay scale. Witnesses seldom see such money as the informers get, unless they also are informers. The basic per diem fee for witnesses for Government agencies is $4. That's for "fact" witnesses—persons who testify as to simple facts, such as the presence of the defendant on the scene at the time of the crime. Expert witnesses get from $10 to $200 a day. Most of the ex-Communists who have testified for Government agencies have been paid as experts, at $25 a day.

When they appear before congressional committees, however, they get less. The House committees' per diem fee for witnesses is only $6. The Senate pays $9. In addition, witnesses always are paid travel expenses to and from their homes.

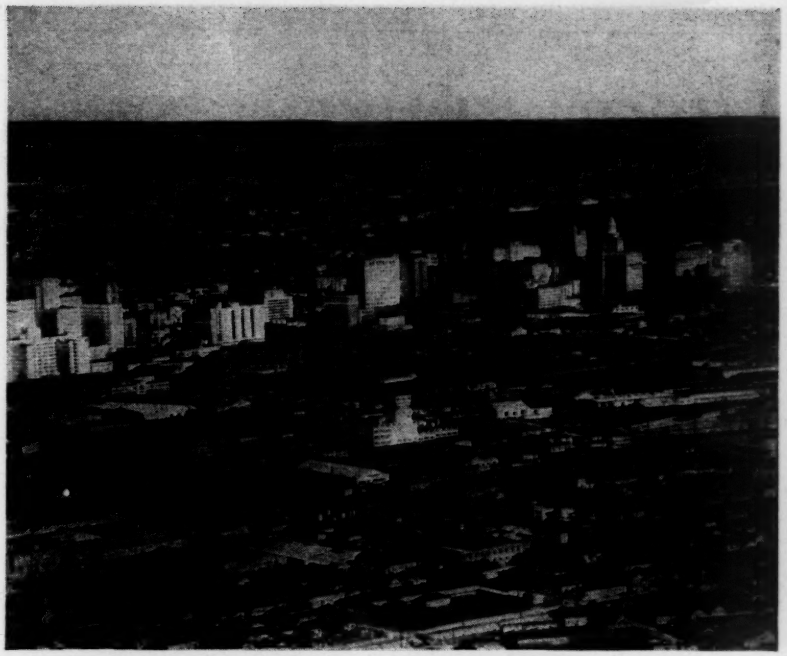


—USN&WR Photo

CONGRESSIONAL HEARING
Not all witnesses are "informers"

One of the best-paid ex-Communist witnesses is Paul Crouch, whose veracity has been frequently questioned. He has been used repeatedly by the Immigration and Naturalization Service. From this Service he drew $9,675.50 for testimony during the two years ended in June, 1954.

The system of paying witnesses, informers and tipsters is at least as old as the nation. Congress is now thinking about offering some informer a sum which will be so large it might be the ultimate tip: $500,000 to anyone who provides information on atomic bombs being smuggled piecemeal into the country.



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IKE ON ZHUKOV: "WE WERE FRIENDS"

President Eisenhower, in his own words, tells of his association with Soviet Marshal Georgi Zhukov—just named Russian Defense Minister in the shake-up inside the Kremlin.

Reporters asked the President the questions that thousands have wondered about.

How did Ike and Zhukov get along?

Were the two military leaders "good friends," or just friendly enemies?

How competent a general is the Marshal?

Does he still have a standing invitation to visit the U. S.?

In answer, the President frankly reports on his experiences with Zhukov in Berlin.

Following are excerpts from President Eisenhower's press conference of Feb. 9, 1955, dealing with the shift of power in Russia and its effect on the outlook for war. Direct quotation of the President's answers was authorized except in three instances, where the answer is paraphrased according to White House rules:

—USN&WR Photos

Marvin Arrowsmith (Associated Press): Mr. President, in the light of Foreign Minister Molotov's tough-talk speech against the United States yesterday, do you think this shake-up in the Soviet Government means a calculated tougher policy toward the United States?

The President: Well, I think I would not at the moment speculate on exactly what it is going to mean. It doesn't necessarily mean that, because they would say anything that would suit their purposes at the moment of a great significant change of this kind in their Government.

I would say that we must be watchful and alert and pursue our policies as we have been pursuing them.

Merriman Smith (United Press): Mr. President . . . one of your old friends and associates was just made Defense Minister by the Russians, General Zhukov. Would you think that General Zhukov's appointment as Minister of Defense would indicate a stronger defense policy on their part, possibly toward this country?

The President: Well, again, I can scarcely interpret that act of theirs in terms of a specific intent on their part.

Now, when I knew Marshal Zhukov, I will say this: He was a competent soldier. A man could not have conducted the campaigns he did, could not have explained them so lucidly and in terms of his own strength and his own weaknesses and so on, except that he was a well trained, splendid military leader.

He and I developed personally a practice of getting along and seeing eye to eye on a number of our local problems in Berlin, and so far as I was concerned —and I believe he was honest about it— we were trying to set up a pattern, if we could, in Berlin, in our little local place there, to show that even two nations could get along if they would both recognize the folly of not getting along.

Now, what this means today, I don't know. The last time I had a direct letter from him was April, 1946, and that was a long time ago.

Robert E. Clark (International News Service): Mr. President, Soviet Foreign Minister Molotov claimed yesterday that Russia's atomic strength is now superior to our own. Do we have any cause to believe this might be true?

The President: Well, certainly there is no proof to that effect. I should say that would be rather a remarkable feat, but I believe it is not worthwhile speculating on.

Chalmers M. Roberts (Washington *Post and Times-Herald*): Mr. President, in the Molotov speech yesterday, he said that he did not think in the case of another war that world civilization would be destroyed. This was in some contrast to Malenkov's statement last March in which he said in a nuclear war both sides would be destroyed.

Could you tell us, aside from the political implications, on a scientific basis, from what you know, something of this as to whether in fact there is a threat in the H-bomb and other nuclear weapons to the whole world?

The President: Well, of course, there are, as we know, some threats in the use of nuclear weapons over and beyond the immediately destructive area, where it destroys by shock and the thermal effects, and so on. There are certain radioactive effects that in the immediate vicinity can be very, very bad indeed,

as we well know. There are methods of protection.

Now, when you begin to come and talk—when you begin to talk in terms of would this destroy civilization or would it not, I should say we are talking in comparative terms. What is the destruction of civilization, and, in addition, how many of these things do you use? How near do you approach saturation in any place?

I would say this, that the thing is so serious that intelligent people ought to forgo a great many lesser ambitions in the effort to achieve an understanding under a method where the whole world could be assured that that understanding was going to be obeyed by all parties concerned, which means there must be some kind of inspection service where all the world could trust it, that we are not pushing toward that kind of a war. So, whether or not civilization is destroyed, I say it is so serious that we just cannot pretend to be intelligent human beings unless we pursue with all our mights, with all our thought, all our souls, you might say, some way of solving this problem.

° ° °

Garnett D. Horner (Washington *Star*): Mr. President, to return to the Marshal Zhukov business . . . he was quoted in an interview yesterday as saying that in 1945 you had told him that the United States would never attack the Soviet Union, and he had told you that the Soviet Union would never attack the United States. Also, he said that you had twice invited him to visit here, and he still dreams of doing so.

I wonder if you could tell us your version of that 1945 conversation and your feelings about the prospects of such a visit?

The President: Well, that is remarkably accurate. Now, when I asked him to visit our country, I was acting as the agent of my Government, which directed me to do so; and, more than that, arrangements had been made once. My plane had been put at his disposal, and my son was detailed as his aide. And I remember he made the remark, "Well, I shall certainly be very safe," with my plane and my son.

We were good friends, and we could talk in that fashion.

Now, I explained to him how absolutely impossible it was for a democracy to organize a surprise aggression against anybody. Our processes are open. Every time you get money or you change anything in your military affairs, you go to Congress. It is debated. There is no possibility of a country such as ours producing a completely surprise attack on any other. And that is what I was

(Continued on page 90)

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emphasizing to him. He repeated, of course, from their standpoint, he felt that Russia was a very peace-loving nation.

° ° °

Kenneth M. Scheibel (Gannett News Service): Mr. President, sir, part of the trouble we are told from Russia is that they are having difficulties with their agriculture and their food supplies. Do you see in that situation any chance for us to do any trading with them?

The President: When you really get down to the bottom of things and study them, Mr. Eisenhower said, everything comes back to how much confidence can be developed in the words of people who have not hesitated to break their word in the past. Every single agreement, engagement, commitment of any kind, he said, has always got to have that as its background, because otherwise you are very likely to weaken your position, either psychologically, politically, materially or economically. Mr. Eisenhower said he wouldn't want to comment just on this one facet of such a possibility.

Joseph C. Harsch (*Christian Science Monitor*): Mr. President, . . . is that invitation to General Zhukov still open?

The President: Well, as a matter of fact, this is the first time it has been mentioned to me since I have been in my present responsible post. And you can well imagine that I wouldn't stand here and suddenly issue an invitation without consulting—without consultation with my advisers. So I would say this would be a remarkable thing at the present state of affairs, but I certainly wouldn't hesitate to talk it over with my people if we found it desirable.

Charles S. Von Fremd (CBS News): Mr. President, there have been growing reports and speculation, sir, that possibly the Soviet Union does not now hold the political strength that it once did control over Red China. If this is true, it would certainly endanger the present situation in the Formosa Straits. But I wonder, sir, if in telling us whether or not you have received such word from your advisers, if you could also let us know whether or not you feel there is a possibility of other satellites' breaking away from the Kremlin.

The President: He would say this, Mr. Eisenhower said: There is no direct evidence that there has been any weakening of relationships between Moscow and the capitals with which it has been dealing. There is, of course, always hopeful speculation in this line, the President added, but no evidence.

° ° °

Laurence H. Burd (Chicago *Tribune*): Mr. President, you mentioned hearing from Marshal Zhukov last in April, 1946.

The President: Directly, I said.

Mr. Burd: Could you say what that involved?

The President: Well it was—I think I can recall it—it was a letter. You see, I left Berlin in November, '45, and he corresponded and he sent me a present. I think it was an enormous bear rug, and I still have it, and something else of that kind. That was all.

° ° °

George H. Hall (St. Louis *Post-Dispatch*): Can you tell us whether the Malenkov resignation was a surprise to this Government or whether we had diplomatic or intelligence reports indicating that it was coming up?

The President: Mr. Eisenhower said he thought that our observers and people in Moscow had been reporting for a long time that things weren't exactly as they appeared on the surface, but he never had seen any kind of prediction as to the exact things that had happened.

° ° °

Roscoe Drummond (New York *Herald-Tribune*): Mr. President, how do you appraise the state of affairs in the Formosa Straits with reference to the evacuation of the Tachens and the possibility of a cease-fire?

The President: Well, I think it would be idle to speculate on the possibility of a cease-fire. We asked Red China, or the United Nations did, to come in and talk it over, and they declined and issued a very bellicose statement, and therefore on that I couldn't say what may happen.

Now, with regard to the evacuation, it is proceeding exactly according to plan. If nothing happens, it should be completed very soon. There has been no untoward incident. In one case I believe one of our planes got a little lost, wandered in a bad area and got hit, but the crew was saved. It—there has been no real interference. It looks like it would go ahead for the moment.

Nat S. Finney (Buffalo *Evening News*): Mr. President, can you tell us whether your freedom of action to order the use of nuclear weapons in connection with the defense of Formosa and the Pescadores is in any way limited by understandings with our allies?

The President: Well, if the United States, of course, got into trouble alone and were attacked, I don't know of any understanding with any allies that applies. I think understandings with allies applies when you are in any kind of an action in consort or in concert with them. I have not thought of that point in exactly the way you have stated, but I think it would be a United States decision.

For what Marshal Zhukov says about his relations with President Eisenhower, see page 75.

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Special Report

(This article represents the result of an extensive research on a problem of outstanding importance.)

ARE NEW MACHINES CUTTING DOWN JOBS?

In a single year, 1954:

Private industry* employed
581,000 FEWER workers than in 1953

Without laborsaving machines and greater efficiency, industry would have needed
150,000 MORE workers than in 1953

SO, if industry had not acquired laborsaving machines and greater efficiency, employment might have gone up, instead of down.

BUT—Over a longer period:

Private industry* in 1947 employed
44.3 MILLION WORKERS

To supply 1954 demand in U.S., using only 1947 machines and methods, would have required
59.3 MILLION WORKERS

Number available, including the unemployed
51.2 MILLION WORKERS

Shortage would have been
8.1 MILLION WORKERS

SO, if industry had not acquired laborsaving machines and greater efficiency, output would have fallen far short of actual 1954 demand in U.S.

*excludes agriculture

Basic Data: Joint Committee on the Economic Report; Labor Department

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Unions, in a drive to win more security for workers, are complaining that jobs are endangered by machines. They warn of unemployment, weaker demand for goods, hard times.

On the other side, business says machines really make jobs.

The Economic Unit of *U. S. News & World Report* has sifted out the facts on this current dispute. Results are given below.

Higher unemployment, in this time of great prosperity, is being cited by some labor leaders and economists as evidence that machines are taking jobs away from workers.

The official figure for the unemployed is higher today—in the midst of recovery—than it was a year ago, when business was headed downward.

Unemployment touches only about 5 per cent of the labor force and normally increases at this season of the year. But, still, the trend worries the union chiefs and sharpens their complaint about "technological unemployment."

There is a practical aim to their complaint. It is being used as one argument for raising unemployment benefits and for some kind of guaranteed annual wage. Their thinking is that machines, at least temporarily, cause hardship for workers by making jobs less secure; hence workers are said to need more protection by Government and by employers.

To find out how much substance there is to the unions' charges, the Economic Unit of *U. S. News & World Report* has made a study of available Government data. Results are summarized in the chart on this page.

The workers who weren't there. If ever workers were threatened by machines, it must have been in the last few years. Since 1947, private business has poured more than 169 billion dollars into new plants and equipment—partly to expand output, but always with a view, also, to saving on labor.

Out of that huge investment, industry now has ability to turn out a vast quan-

(Continued on page 94)

Harvey extrusions . . . how fewer parts mean more planes

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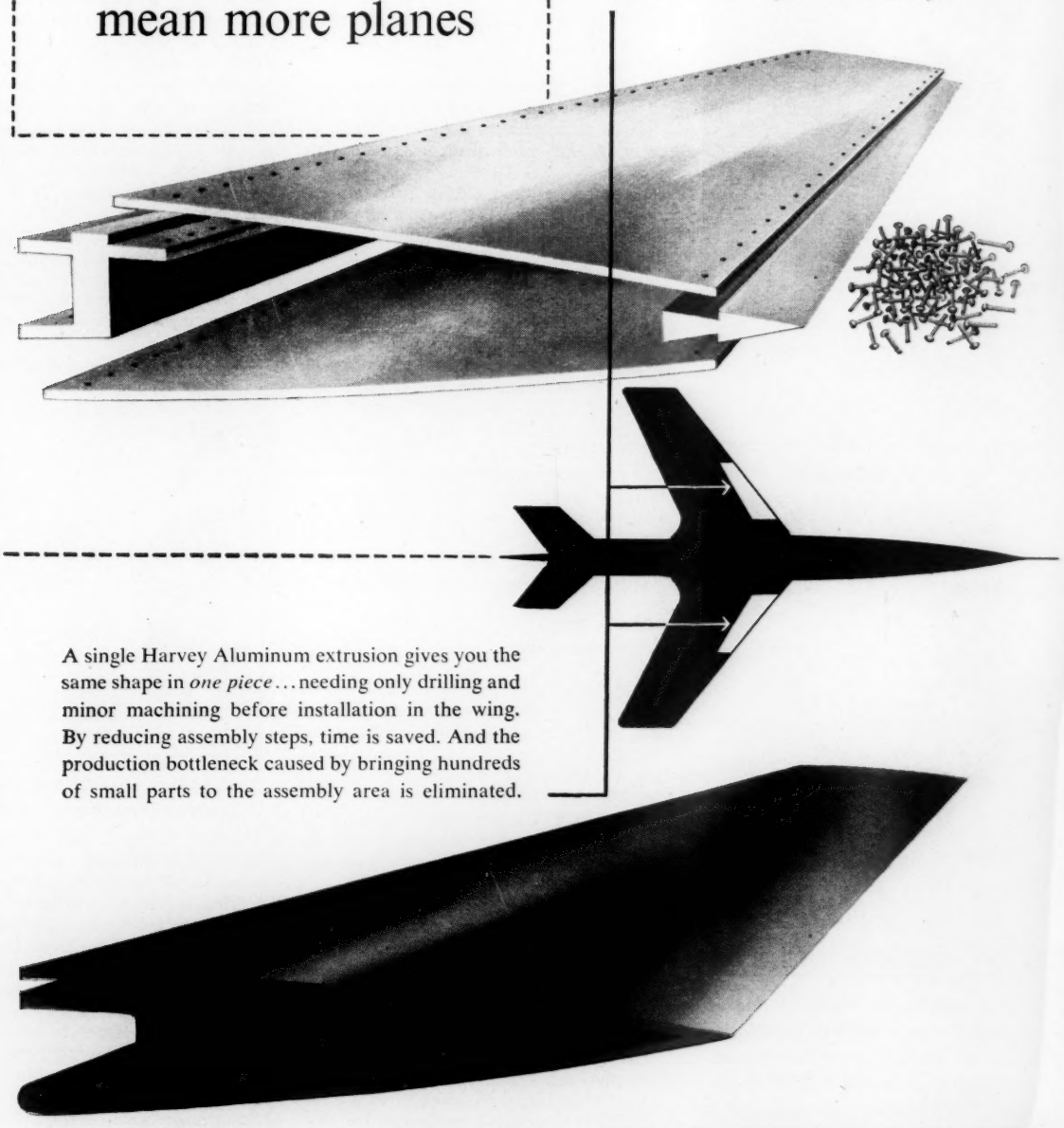

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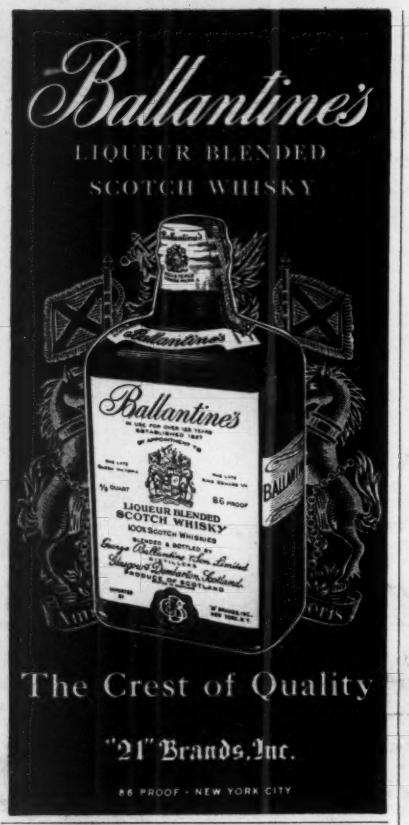

500 More Employees

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The Pennsylvania plant of one of America's well-known companies finds Mosinee Sentinel Towel Service is still saving them $300.00 per month, compared to previous towel service. This tremendous saving exists in spite of the fact that (1) number of employees has increased by 500, and (2) plant has increased its work week from 5 to 7 days.

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What machines are doing: displacing some workers, but creating new jobs for many more . . .

tity of goods that couldn't have been made with the labor force of 1947, using the machines and operating schedules of that time. It is estimated that the gain, as indicated by 1954 output, is equal to the work of 15 million men.

Offhand that might seem to mean that 15 million workers were displaced since 1947, that employment today should be lower by that much. But, of course, that isn't so.

Average employment in private nonfarm industry in 1954, a year of partial recession, was about 3.7 million more than in 1947, a year when business was expanding.

What happened was that output went up even more than the increase in productivity. There was a strong demand for goods and services. Inflation had stopped, thanks to bountiful supplies made possible by the new equipment.

Actually, the new machines are taking the place of workers who never existed. You see that when you compare the increase in output that has taken place with what might have been done without investment in laborsaving devices.

In that case, most of the increase would have come about through hiring more people. How many could have been hired?

The labor force increased by 4.8 million from 1947 to 1954; this number could have been put to work. The unemployed, who numbered about 2.1 million in 1947, also might have been put to work. With every available man working, the manpower would have increased by less than 7 million.

So, hiring of more workers would have meant less than half the additional output brought about through increased productivity.

Without the new machines, there would be less to go around. Prices might be higher. The economy would not be expanding as fast as it is. And it is expansion that is counted on to make room for new workers and for any who may be displaced by machines.

What happens to the worker? That is what the broad figures show. What about the individual cases in which new machines actually enable employers to use fewer men on a job?

The Ford Motor Company, for instance, has an assembly line handling engine blocks with only 41 men, where it used to use 117. "Automation" has been pushed in one radio plant to where two men do work once done by 200.

What happens in cases like those? Frequently, of course, the company finds new spots for the displaced men. Companies that invest heavily in new equipment are likely to be strong and building up a bigger business.

In other cases, displaced workers move into new jobs elsewhere. Without shifts in manpower, it would not be possible to have labor available for making new products.

Plants have opened up making a lot of new products which are now an accepted part of the nation's higher living standard. There are new jobs producing television sets, new kitchen appliances, new types of packaging, frozen foods.

Over the long run, wages have been linked to the value of the workers' output. As output increases, thanks largely to new machines and new ideas, wages

—McCutcheon in the Spokane Spokesman-Review

LABOR LEADER'S DILEMMA
The fear of machines is widespread

are raised. In fact, wages have risen much faster than productivity since 1939.

That is why the machine has been regarded, in the U. S., as a friend, not an enemy of workers. Laborsaving equipment has been generally accepted.

In Britain and many other countries, on the other hand, innovations have been opposed, as a threat to jobs. Production has been held down. Costs and prices have been kept up. People can buy less and work longer. It takes the worker many more hours at the machine to earn enough for food, shoes, suit or car.

Why, then, does worry over the machine arise?

Fear is normal. The reason is that it is just natural to think that way. It seems, at first thought, as though the machine should displace the worker.

After all, most machines and most changes in operating methods nowadays are intended, in part, to get a greater

. . . Nations with little machinery envy the U. S.

output with a smaller amount of labor. Payrolls account for about 64 per cent of the total cost of nonfarm goods and services. A new machine is one way to keep from falling way behind in the race with wages.

Figures on employment for a single year sometimes cause worry. In 1954, for instance, increase in productivity was equal to about 731,000 jobs; employment dropped by 581,000.

But 1954, of course, was a year of downturn. A number of factors, not just the use of laborsaving equipment, were the cause of people losing jobs. It was harder for workers, if displaced, to find other places.

In the seven years since 1947, this has happened only twice, in 1949 and again in 1954. So the workers' troubles, on the average, have been brief and tied closely to broad business trends.

Men who make machines. People who fear machines often overlook the role of producing machines as a factor in setting business trends.

Naturally, it takes men to make machines. A stagnant economy, with little money being invested in new equipment, would mean few jobs in the machine-tool companies, railroad-equipment shops, and electrical firms.

More important, from the economist's viewpoint, is the belief that a dollar spent on new plants and equipment is more powerful, in generating business, than a dollar spent in other ways.

The 169 billions invested in the last seven years played a big part in keeping the nation prosperous and in preventing small recessions, in 1949 and 1954, from becoming serious. Machines helped to make jobs, not destroy them.

The global view. A glance around the world is an even better test of effects of this investment. The U. S. is the greatest machine-using country. It provides more industrial and commercial jobs, pays more wages, has a higher living standard than any other nation.

At the opposite end of the scale stands China, a country that has little machinery, that depends mostly on human hands—and backs. Even in such countries, unemployment is not unknown. The low living standard means many more people need work. Children are thrust into trade or industry at an early age; retirement for old people is rare.

As a result, the machine-poor countries have a passionate desire to get factories, power plants and all of the paraphernalia of American industry. In this they see their chance to have a decent living standard, too.

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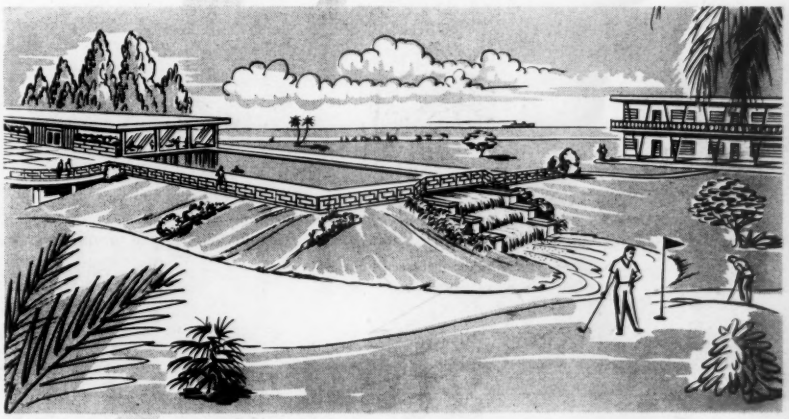

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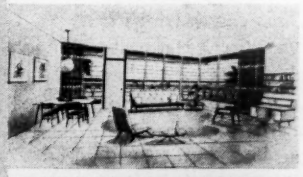

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IN YOUR PERSONAL PLANNING

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Lots of people, starting now to make out income tax returns, are having trouble with the new tax law's provisions on annuities. Internal Revenue offices and even Congressmen are being showered with complaints about complications. This, then, to help clear up the situation:

TAXING ANNUITIES. Biggest complaint is that, in many cases, people are finding they now have to pay more tax than under the old rule. What they often fail to realize is that this holds true only for the annuity's earlier years. Under the old rule, part of each payment you received--3 per cent of the annuity's cost--was taxable. The rest was considered a tax-free return on your investment; when the tax-free amounts added up to the annuity's cost, you then had to pay tax on the whole payment. Now you pay on a fixed percentage each year. If you live long enough, you get back tax-free more than what your annuity cost; the best you could do under the old rule was to recover your capital.

RETIREMENT INCOME. Note, too, that annuities count as retirement income which is eligible for a special tax credit provided by the new law. Thus, despite what may be a bigger tax on annuities at first, most retired taxpayers should find themselves better off under the new law.

FIGURING THE TAX. Not all annuities, endowments and pensions are subject to the tax treatment involved in the 3 per cent rule change. Some annuities are fully taxable. That's the case, for example, on one for which your employer paid the costs, and on which you weren't taxed for his contributions.

On others, the percentage that is free from tax has to be worked out for each case. That's arrived at by dividing the annuity's cost by the expected return. An annuity which cost you, say, $7,500 but which is to pay $10,000 over a 10-year period thus is ¾ tax-free--you report as income only $250 of each $1,000 annual payment. For an annuity that is to pay a set sum each year the rest of your life, figuring is a bit more complicated. You determine the expected return by multiplying the yearly payment by your life expectancy.

LIFE EXPECTANCY. Usually, you can get this life-expectancy figure from your employer or the company that pays you the annuity. Or your nearest Internal Revenue Service field office will send you the tables.

If you have been paying taxes on an annuity in the past under the 3 per cent rule, switching to the new method is relatively simple. Figure the tax-

(over)

free part in the usual way, but you must first subtract from the annuity's cost any amount you have recovered tax-free in previous years.

AUTO ACCIDENTS. If you think a car crash is coming, put your arms on the dashboard and cradle your head in them--that's the advice of a St. Joseph, Mo., surgeon who has made an intense study of auto-accident injuries. The head gets 63 per cent of car-crash hurts, Dr. Jacob Kulowski finds. Simple cushioning by the arms can protect significantly, he says. If you're in the rear seat, cradle head and arms on the back of the front seat, Dr. Kulowski suggests.

GIFTS OF PROPERTY. Here's another angle to that item on gifts of property we told you about last week: If you receive a piece of property as a gift, and then sell, you figure the tax on your gain by taking as a starting point the property's cost to the person who gave it to you. But, if you sell at a loss, you start with either his cost or the property's fair market value at the time of the gift, whichever is lower.

NEW-CAR PRICES. Reports come in from around the country that automobile dealers are jacking up "list" prices of new cars so they can offer more liberal trade-ins or bigger discounts to prospective buyers. There's nothing illegal about the practice; it's mainly a self-defense move by dealers to cope with customers who have grown to expect a "deal." This price "packing" usually comes in charges added on by the dealer for delivery or for readying the car for the road--also in charging a higher markup for accessories. The practice is commonest where competition between dealers is keenest--suggesting that shopping around might pay.

FRESH AIR. On winter nights, should you sleep with bedroom windows open? That's a matter for individual decision, say U.S. Public Health Service physicians. Some people, they report, find more nose and throat irritations develop when cold, moist, nighttime air is let in. Others find the same air invigorating. There is nothing really unhealthful about sleeping in a closed room, the doctors add; the average house leaks in enough air to provide plenty of oxygen for all occupants.

SUMMER CAMPS. You'd do well to start now on making arrangements for that camp you plan to send your boy or girl to next summer. American Camping Association officials tell us that in the East--especially with some of the more-exclusive private camps--registrations start filling up in midwinter. On the West Coast, few applications are filed before April. In the Midwest, the practice varies, though in general following the pattern of the East.

COMIC BOOKS AND TV. Reading comic books and looking at television programs --unless done to excess--have no great effect on how youngsters behave or how well they do in school. This finding by a Northwestern University educator is reported in a publication of the American Medical Association. His investigations show youngsters spend upward of 20 hours a week watching TV and that 9 out of 10 read comics regularly. He suggests, though, that parents see that their children stick to "good" comics and programs; also, that these activities be balanced with others of "greater value."

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LIFE AROUND THE WORLD®

memo

FROM JAPAN

HIGH JINKS IN DIET

TOKYO—Japanese voters are about to elect a new Diet, or Parliament. The question is whether they will prefer candidates who are handy with their fists, those who have gotten rich on bribes, or the handful who have proved genuinely able legislators.

Japan's Diet is probably the most riotous political assembly in the world. Fights and the antics of members who drink too much enliven the meetings. A scandal-free session would be unprecedented. For example, the Diet just dissolved had the following on its record:

Four representatives were arrested on charges of bribery.

Police were called in once to quell a riot on the floor.

Forty-five members were suspended 30 days for rioting.

Kissing Minister. Explosive as it was, the most recent Diet did not produce an individualist who could rank with Sanroku Izumiyama, onetime Finance Minister. Izumiyama, after a few drinks, earned a place in history by forcibly kissing a sedate, elderly woman member, at the same time declaring: "I love you better than my supplementary budget!"

Fist fights have always been fairly commonplace in the Diet. The present Premier, Ichiro Hatoyama, fondly recalls his first battle when he was a freshman member in 1914. It is significant that the Diet does not permit ash trays, teacups or other throwable objects in either the gallery or on the floor.

The granddaddy of all Diet rows occurred last June when the Liberal majority insisted on extending the session to pass several "urgent" bills. The Socialists, opposing the extension, started rioting. They blocked the doors to the Diet chamber, and their women deputies occupied the seats of Cabinet members. Two hundred policemen finally put a stop to the battling.

Japan has various corrupt-practices laws to discourage bribes, but scandals crop up with monotonous regularity.

(Continued on page 102)

—United Press

THE LEGISLATIVE SCENE IN JAPAN
. . . it took 200 policemen to quell the fighting

Money Talks ...AND TALKS BACK, TOO!

When budgets are figured close, the pipe that "talks" less money *initially* is usually heard above the pipe that quietly says, "durability." Unfortunately, the pipe with the low-first-cost talk has a habit of talking back, too. You know this story too well if you've watched a pipe repair job where low-first-cost pipe has failed prematurely. The initial "savings" can be wiped out many times in labor costs.

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memo

. . . Japanese press pokes fun at nation's lawmakers

A Government collapsed in 1947 when a number of Diet leaders were charged with taking bribes from a fertilizer company to promote a huge Government loan.

Two major scandals broke in 1954—one involving an investment house accused of paying off members of three parties, and the other involving shipbuilding companies charged with distributing $500,000 in bribes.

Junkets. Like most legislators, Japanese members of Parliament frequently go on trips abroad at Government expense to look into this and that. Some of the expeditions have been worth while, but often the travelers have had their troubles.

There was one group not long ago that set out on an assignment to tour Southeast Asia and showed up in London. The leaders explained they had decided to study Britain's Parliament—but, unfortunately, had not learned in time that Parliament was not in session. Another group, scheduled to spend eight weeks in the U. S., left at the end of two. The Japanese used their $30-a-day travel allowance to buy clothes and had to hurry home when they ran out of money.

Japan's press has no hesitancy about commenting on the Diet. The magazine *Bungei Shunju* published recently an appraisal of members, some of whom were summed up in these words:

"Choji Yamada: Necessary personnel for a Diet riot."

"Yoshizo Minabe: Necessary personnel to scare the speaker."

"Niro Hoshijima: The oftener he is returned to the House, the more obscure does he grow."

Bafflement. Often the processes of Western democracy seem to baffle Japan's legislators. For months last year the opposition, ignoring the principle of majority rule, complained that the Government controlled "by mere numbers." The Socialists argued that, since the minority had rioted against the majority, the majority should abdicate and give the minority a chance to run things.

Nevertheless, Japan's Diet is probably as good as any parliamentary assembly in Asia, and better than most. Some members are rowdy and some legislation shoddy, but the chances are the Diet elected this year will be a representative cross section of public opinion in Japan.

And, certainly, no one will ever call it a rubber stamp.

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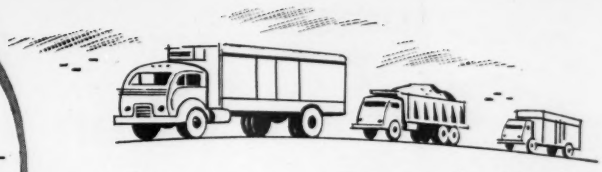

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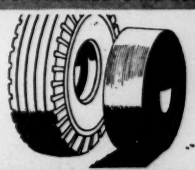

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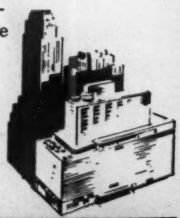

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When 15 Million Workers Unite—What It Means

Now that most unions are to be banded together into one big organization, what does it all add up to?

Is the CIO dead? What becomes of Walter Reuther? Will unions be stronger or weaker? What problems are raised for employers?

The article that follows seeks to put in perspective the forthcoming merger of AFL and CIO.

When, within the year, the CIO is swallowed up by the AFL and two big labor organizations become one, these results can be expected:

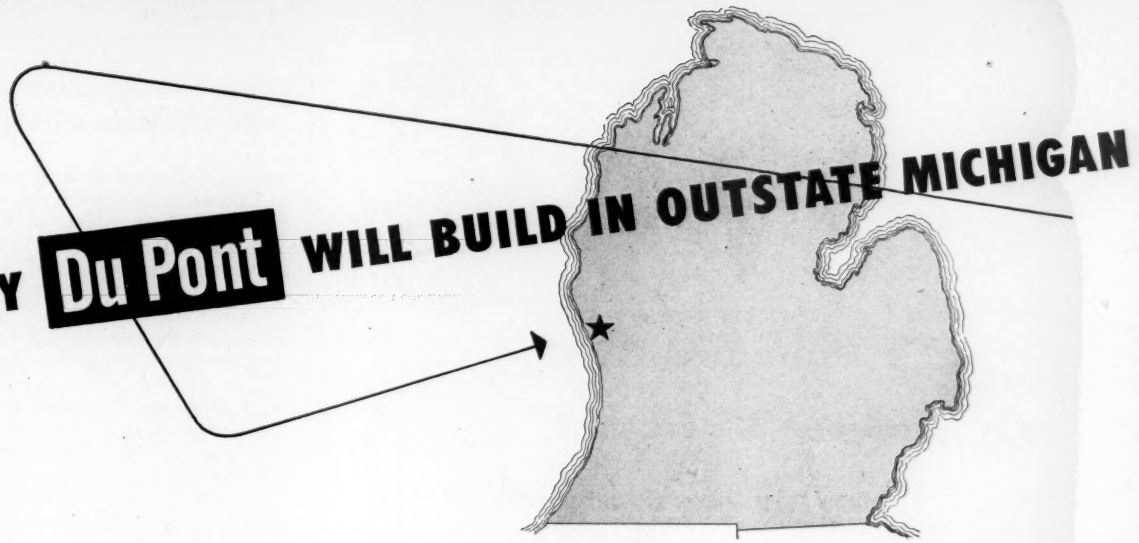
- George Meany, as head of the big, new federation, will become the strongest labor leader in the world. He will preside over 145 unions in all walks of life, with a combined membership of about 15 million.
- The union movement in the U. S. will come closer to being united than it has been for 20 years. It was that long ago when a group of unions broke away from the AFL and formed the CIO. A united union movement can be a stronger union movement.
- Politically, 15 million union members, if they work together, can be a more powerful factor in elections than ever in the past. This means more help for Democrats, usually favored by union leaders over Republicans.
- Employers, in some cases, will have fewer unions to deal with. This will result from mergers of individual unions that have been competing for members in the same industries.
- After merger has become a fact, employers can expect stepped-up organizing activity in fields where unions have had little success in recruiting members.
- The CIO, as it has been known in the past, will be dead. This development follows the outline of an article that appeared in *U. S. News & World Report* on Dec. 3, 1954. CIO unions will be banded together into a department inside the new federation, and an attempt will be made to perpetuate the CIO label. But there will be less emphasis on CIO legislative and social theories as advanced over the years by such CIO leaders as Walter Reuther and the late Philip Murray.
- Mr. Reuther, himself, will be less powerful outside his own union—the United Auto Workers. But he will not go into eclipse. As head of a union of more than a million workers, Mr. Reuth-

(Continued on page 106)

—Wide World

GEORGE MEANY, AFL, AND WALTER REUTHER, CIO
Still on the outside: John L. Lewis

WHY Du Pont WILL BUILD IN OUTSTATE MICHIGAN



Plans for construction of a neoprene (chemical rubber) plant in the new Lake Michigan chemical center at Montague, Michigan, have been announced by E. I. du Pont de Nemours & Co., world's largest chemical concern.

The new Du Pont plant will be close to the Hooker Electrochemical Company plant that began production recently.

Hooker will supply anhydrous hydrogen chloride to Du Pont for its neoprene process. Union Carbide and Carbon will build a new plant in the same area to manufacture acetylene for Du Pont and future customers.

Why did Du Pont choose this Outstate Michigan location?

"The plant area is over a huge deposit of salt from which the chlorine will be made (by Hooker)," said a Du Pont announcement.

"The existence of the deposits, the availability of labor, the ample supply of power and good water and proximity to markets are all major factors which led to selection of the Montague site."

Outstate Michigan has plenty of good sites for chemical plants as well as any other plants. Many, like the Du Pont site, offer the benefits of Great Lakes transportation.

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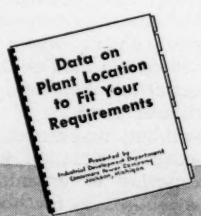

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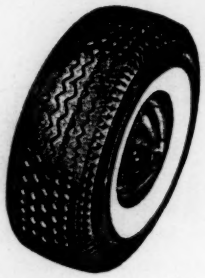

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Drive for guaranteed wage will not fade with CIO . . .

er will continue to help shape policies of the labor movement. He also will become a vice president of the new federation and a member of an eight-man governing group that will direct federation affairs.

Here, in more detail, is what this so-called merger will mean to employers, workers, and the public in general:

Effect on employers. When the new federation is formed, effects on employers will vary from industry to industry. Much will depend upon whether an industry now has one powerful union to deal with, or has two or more competing unions.

Generally, there will be little effect on wage demands. The new organization, expected to retain the name of the American Federation of Labor, will have no power to tell individual unions what to ask for at the bargaining table. Every union will be on its own in bargaining.

Wage patterns, as in the past, sometimes will cross industry lines, but this will be because a big union in a key industry has won a pay raise that other unions try to copy. There won't be any "standard" pattern set for all of the 145 unions coming together in the merger.

One of the big unions that will seek to establish wage patterns will be the CIO United Auto Workers. Mr. Reuther, as an example, would like to get a guaranteed annual wage from an auto company this year, to set this up as a goal for other unions to aim at. In that way, Mr. Reuther will continue to be a worry to employers outside the auto industry even after he drops his CIO presidency.

Effects on strikes. Merger, conceivably, may bring about a reduction in number of strikes.

This decline is expected to take place in those industries where rival AFL and CIO affiliates join forces. That would put an end to jurisdictional strikes, which occur when one union tries to take a plant away from a rival outfit.

To some extent, jurisdictional strikes have been averted recently through a no-raiding agreement signed earlier by most AFL and CIO unions. This pact pledged the signers to respect jurisdictions of rival unions where contracts were in existence. Union A agreed not to try to recruit members held by Union B in a particular plant.

The no-raiding agreement, however, does not cover a situation where two unions are trying to organize a non-union plant. Also, a few big unions have declined to sign the agreement.

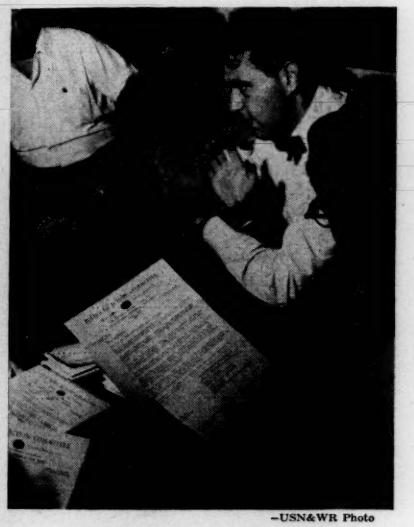
. . . Stiffer bargaining—or less competitive zeal?

Thus, employers still can expect some strikes involving disputes between unions over bargaining rights for a plant.

The merger agreement does not force rival CIO and AFL unions in particular industries to get together as single unions.

Larger strike funds? When unions in a given industry decide to merge, employers in that field will find themselves up against stronger bargaining units, with more members and larger war chests for strikes. This could mean tougher unions, demanding more, staying out on strike longer.

Some union officials, however, take the view that mergers in some cases will result in fewer strikes. They contend that union officials sometimes will "soften up" when they do not have competition from rival unions. No longer will there be the urge to win larger pay raises than the rival group, in order to lure members away from the rival.



—USN&WR Photo

UNIONS TALK POLITICS
. . . stepped-up activity?

Among the industries where mergers may take place in the next year or two are textiles, paper making, chemicals, oil refining, meat packing and the maritime fields. There are many other fields with competing unions, but some groups will be in no hurry to unite.

While AFL and CIO affiliates are merging in various industries, left-wing unions in those same fields are expected to try to work their way into the new federation. AFL officials are trying to block a merger plan of the left-wing

(Continued on page 108)

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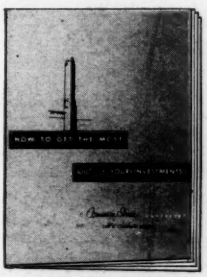

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U. S. News & World Report, 435 Parker Avenue — *Circulation Dept.* Dayton 1, Ohio

. . . *End of "raids" expected, more straight organizing*

Fur and Leather Workers, which wants to join with the AFL Meat Cutters. Other unions that were expelled from CIO on charges of Communist domination are expected to make bids for mergers with established AFL or CIO groups.

Bigger organizing drives? One thing that both AFL and CIO officials are stressing about the merger plan is their hope that organizing activities will be stepped up once the two groups stop fighting each other.

Millions of dollars have been wasted, officials say, in raids by one union on territory of another union. Their hope is that this money can be spent on recruiting new members in plants or industries now unorganized.

Organizing drives are expected, for example, in the chemical industry, in lumbering and furniture, in retail stores and in offices. Mr. Meany already is talking of recruiting white-collar workers on a big scale, in a field hardly tapped so far by either AFL or CIO.

Mr. Meany has made it clear that he has no intention of trying to recruit all of the nation's 60 million workers. Many of these are in occupations that do not lend themselves to union organizing. As an example, he said that small farmers would not be a target for recruiting by unions since the unions could not do anything for them if they did organize.

The old quarrel between craft and industrial unionism will not be allowed to interfere with recruiting drives to be conducted by the new federation, under the merger agreement.

The CIO was formed in 1935 by leaders of a few AFL unions that had tried to get the AFL to start a big organizing drive in the mass-production industries such as steel and autos. Craft unions were blamed for blocking creation of plant-wide unions.

Since that time, however, some of the AFL craft unions have branched out beyond their own groups of skilled craftsmen, such as electricians or machinists. These unions now organize factories on a plant-wide basis, taking workers as members regardless of occupation or skill.

To reassure CIO unions, the merger agreement calls for creation of a separate department for industrial unions inside the new federation. There already are departments of building-trades and metal-trades unions, for example. Mr. Reuther probably will head the new department, to be called the Council of Industrial Organizations. CIO's famous initials thus can be retained for recruit-

(Continued on page 109)

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. . . Bigger bloc of labor votes—if it's a bloc

ing drives. CIO's present name is Congress of Industrial Organizations.

CIO leaders also are promised three places on a top executive committee that will run the new federation. Five others will be from AFL. In addition, there will be an executive council of 29 members, with 19 coming from the AFL and 10 from CIO unions. The AFL claims 10 million members, while CIO claims about 5 million.

Effect on politics. The new federation expects to wield more influence in politics. CIO leaders see the merger as a chance to expand CIO's political operations into the larger AFL membership.

The new organization will stress to Congress and to candidates for office that it speaks for 15 million workers. The CIO from the start has been in the Democratic camp. The AFL also lined up with the Democrats in 1952, breaking a long-standing policy of neutrality in the presidential race.

Mr. Reuther denied last week that the merger will create a huge bloc of labor voters. He said that he could promise candidates only one vote, his own. At the same time, he said that a united labor movement would do a better job "of influencing people."

Lobbying activities of the new federation will be more effective, too, officials believe. In the past, CIO and AFL sometimes took opposite stands and canceled each other out in asking Congress for legislation.

The general policies of the new organization, it is indicated, will be more conservative than CIO's "line" has been. Many of CIO's policies have been considered by AFL leaders to be too radical for the older AFL groups. Mr. Reuther and his allies at times will be outvoted by conservative officials of AFL.

What about Mr. Lewis? Officials of CIO and AFL have no intention of allowing John L. Lewis to move in on the merger. Mr. Lewis led in the formation of the CIO, but, after seven years, pulled out. Later he returned to the AFL for a while, only to quit when his advice was rejected by other leaders.

The United Mine Workers union, which he heads, is expected to remain in its independent status while the merger goes ahead.

Railroad brotherhoods, composed of crews who operate the trains, are not expected to join the new federation. By tradition, these unions are independent. Many of the nonoperating unions on the railroads belong to the AFL.

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PLUS & MINUS
Latest Indicators of Business Activity

Expansion of business activity is still under way. More and more capital seeking long-term investment is being soaked up. Bond yields are rising.

The steel industry set its operating rate at 87.4 per cent of capacity in the week ended February 12. Order backlogs are rising, and the industry looks for an operating rate above 90 per cent of capacity before long.

Auto production climbed to 164,295 in the week ended February 5, within 1 per cent of the 1950 record. February output may exceed January production of 659,457.

Electric-power output increased to a rate 15.8 per cent above a year ago. In recent weeks the year-to-year gain has widened sharply.

Factory output rose to 135 on the indicator, only 3 per cent below the peak of July, 1953.

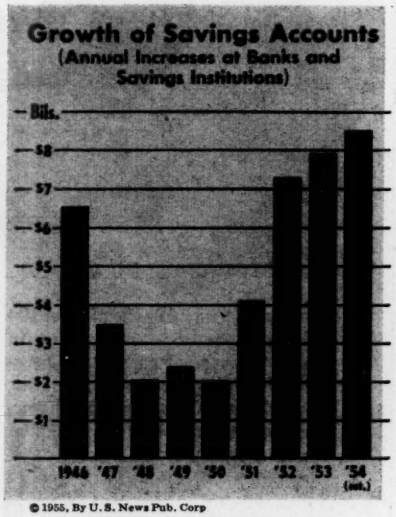
Construction in January was at a rate of 40.2 billion dollars per year, up 13 per cent from January, 1953. The industry now has an output of 55 billion per year, if maintenance and repair work is included.

Retail-store sales were at a rate of 180 billion dollars per year in January, second-highest month on record, only 1 per cent below December.

Cash and credit buying have both risen. Weekly pay of factory workers in January was at a record high for the month. Dividends are rising along with stock prices, putting stockholders in an optimistic frame of mind. Installment-credit terms are easier.

Accumulated savings are giving a feeling of security to many, encouraging them to spend more freely, from their incomes or with the use of credit. Savings accounts of individuals, as the top chart shows, rose about 8.6 billion dollars in 1954, largest gain for any year since World War II.

Mortgage credit is superabundant. Home mortgages recorded in December set a record 40 per cent above a year earlier. The average mortgage grew to $7,131, up $759 in a year.



Bond yields continue to rise. High-grade municipals yielded 2.43 per cent in the week ended February 5, up from 2.29 early in December. High-grade corporations return 2.97 per cent, against 2.89 in December.

Heavy demand for capital lies ahead.

State and municipal borrowing, about 7 billion dollars in 1954, seems headed much higher. A timetable of future State and municipal financing—some of it not due until 1956 or later—adds up to more than 15 billion. A new plan to foster school building, offered by the Administration, seeks to stimulate State bond issues on a large scale for this purpose.

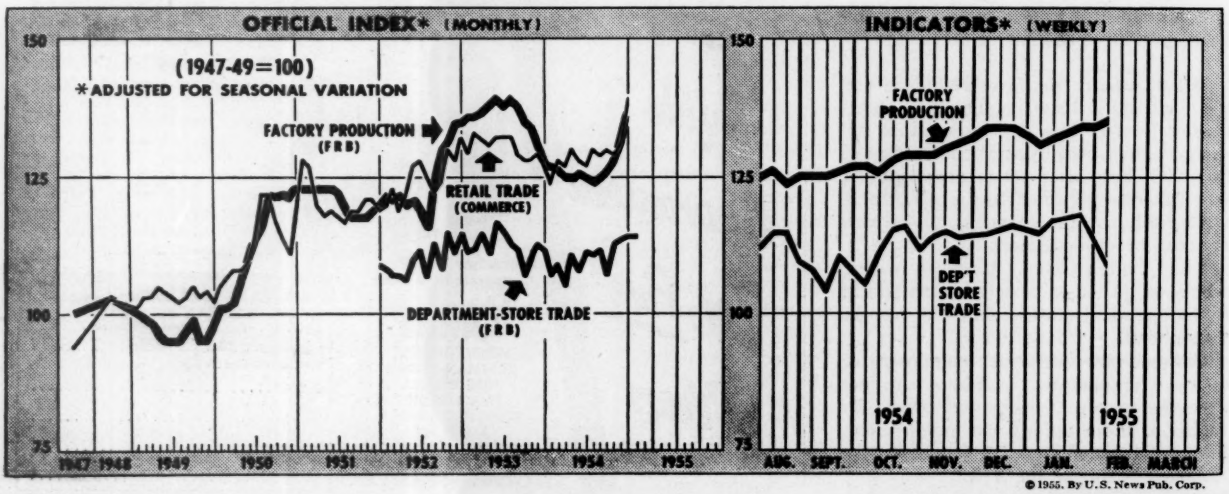
Commercial banks, important buyers of municipal bonds, will have less money with which to buy them if federal banks continue to limit reserves.

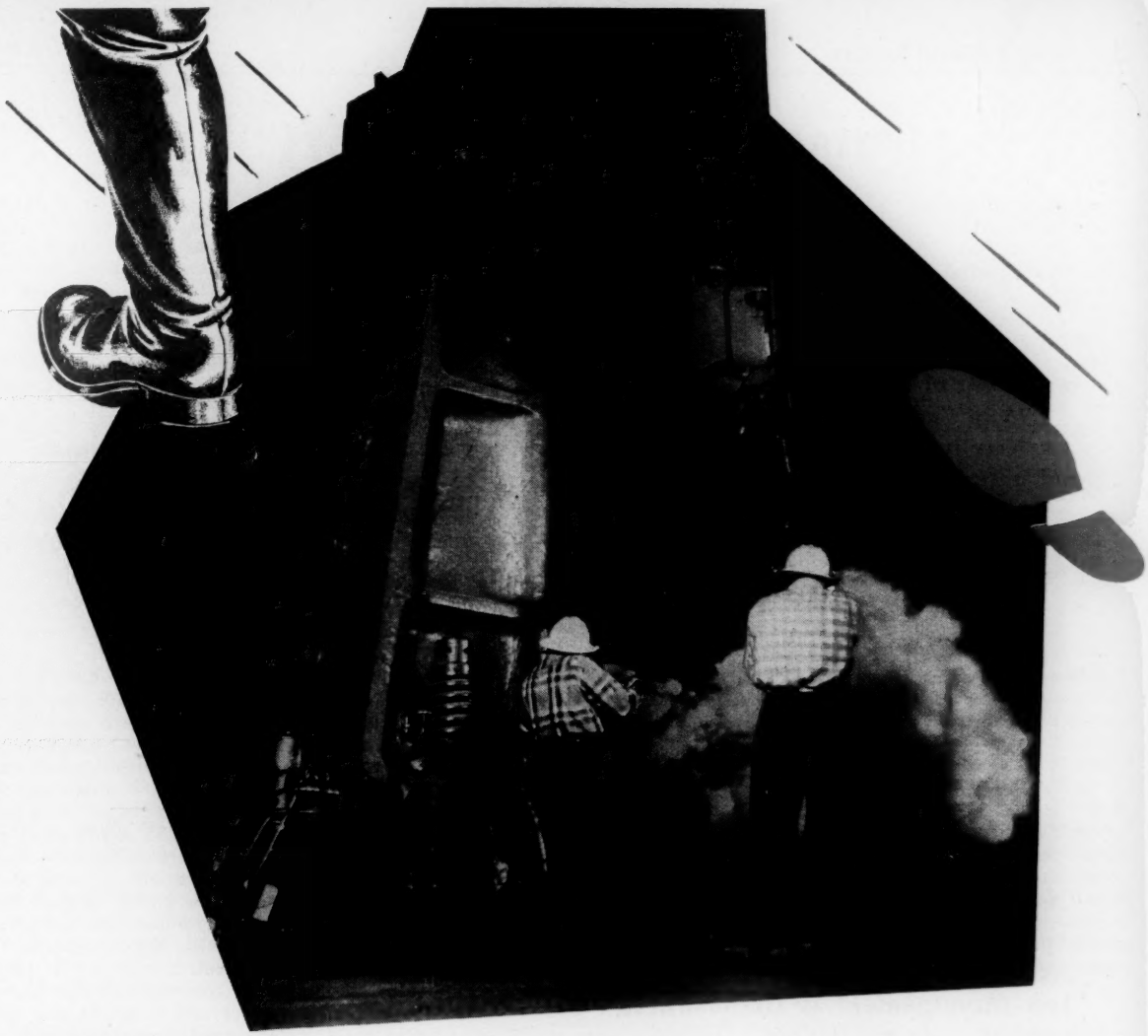
The highway-construction proposal calls for a new federal agency that would raise money by sale of its own bonds, advancing the money to States. The agency would issue 500 millions of its bonds in 1956, 1.5 billions in 1957 and from 2 to 2.5 billions per year from 1958 to 1965.

Other borrowing will be heavy in 1955. Home-mortgage debt is to rise by 9.6 billions, against 8.9 in 1954. Corporate borrowing is to hold near its 1954 rate of 7.6 billions.

Money managers of the Government must walk a tightrope. Stock prices have climbed to a new high, despite a recent increase in margin requirements from 50 to 60 per cent. Unless money tightens, stock speculation can get out of hand, mortgage demand may become too heavy. But, if bond yields rise too much, the school-building plan will be in jeopardy.

An upward trend of bond yields seems likely to continue. The rate, however, will be slow so long as business activity has room to expand without inflation. A moderate rise in bond yields will hardly stand in the way of financing urgently needed for schools, highways and other projects.





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HOW TO KEEP GOOD MEN IN GOVERNMENT JOBS

What U. S. Government needs, according to an official report just released:

- **More "non-career" executives.**
- **New rules to let them keep investments and a stake in industry pension plans.**
- **New corps of topflight career officials.**
- **Sharper lines between "non-career" executives and career officials.**
- **Higher pay for both groups.**

These recommendations of the new Hoover Commission, given here, are based on findings of a Task Force headed by Harold W. Dodds, president of Princeton University.

Dissents on several points were recorded by three Commissioners—Clarence J. Brown, James A. Farley, Chet Holifield.

Following are excerpts from the "Report on Personnel and Civil Service," as released by the Commission on Organization of the Executive Branch of the Government, Feb. 14, 1955:

Non-Career Executives

Our Task Force has found, and we agree, that the government's personnel on the whole is competent, faithful, and in numerous specialties, distinguished. The greatest weakness is in expert managerial direction. Management needs to be improved at all levels, from the non-career political appointees and the career administrators down to the first line supervisors.

Top Management is Understaffed

It is generally understood that the Nation requires non-career executives who serve at the pleasure of the President and his immediate department and agency heads and who represent the political party in power and the measures to which it is committed. It is not well understood how much manpower is actually needed to do this job effectively. The existing number of non-career executives is spread too thin in terms of the tasks which they should perform.

Our Task Force has noted the high and increasing rate of turnover of top non-career executives, especially in the assistant and undersecretarial positions.

Average Months' Service of Top Non-Career Executives, 1933-52

	1933-48	1948-52
Secretaries	49	42.5
Under Secretaries	23	23
Assistant Secretaries	32	28

Not only do non-career executives serve for short periods, but they commonly come unprepared for the type of political struggle which at once engulfs them. In industry, the key executive positions are for the most part filled by men experienced in their line. Most of these have spent years working their way up from relatively low positions in the same or similar industrial activities. In contrast, the Government's non-career executive usually is brought in from outside and is expected to direct experienced employees engaged in long-continuing activities of which he often has only a slight knowledge. He must acquaint himself with mountains of details and engage immediately in advance planning, budget work and defense of agency policies and programs.

Much of the activity of Government non-career executives involves the Congress, and in these relationships the Congressmen easily outweigh the Government executives in Federal political experience. In 1953, 26 Senators out of a total of 96 had more than 10 years of continuous service in the Senate and 154 Representatives out of a total of 435 had more than 10 years service in the House. In each House the seniority rule places these long-service members in key committee positions, and it is with them primarily that the non-career executive must deal.

The vast task of taking command of departments and agencies, developing policies and programs and defending these before the Congress and the public as well as before Presidential staff arms such as the Bureau of the Budget overwhelms the non-career executives. If this were not enough, they must make political speeches and participate in numerous political activities to promote their party's cause with the public.

It has, therefore, been natural that overworked and relatively inexperienced non-career executives have tended increasingly to rely upon career administrators to carry part of the load. While career administrators normally have not been asked to engage directly in political battle, they have been over the past number of years thrust into the defense of agency policies, programs and activities. It has been common for non-career executives to make only brief appearances before committees of the Congress and then leave the burden of detailed explanation to career administrators.

Some career administrators have been drawn out of their proper role and have become identified with certain administrations or particular policies and programs. To be sure, some career administrators have relished political combat and have done well in it. However, once they become so involved they are, of course, vulnerable to political attack which directly threatens their further usefulness. In order to merit the rights and safeguards of career employees, career administrators must abstain from political participation. Non-career executives have a direct responsibility to avoid involving such career employees in tasks which should be performed by non-career executives.

Additional Non-Career Executives Needed

Our Task Force concludes that additional competent non-career executives are needed to carry the burden of executive relations with the Congress and the public, and of policy and program development and defense. This need has had growing recognition in recent years. Provision has been made for a number of additional assistant secretaries. Also, some department heads have undertaken gradually to equip themselves with staffs of both non-career and career assistants at the departmental level to review and coordinate the work of subdepartmental units and help in policy and program formulation. This trend holds great promise for improved departmental management and leadership, and non-career executives and members of Congress should recognize its importance.

The Constitution and the trend of executive management point to the departmental level as the focus of political responsibility and authority. The first Hoover Commission urged that "Under the President, the heads of departments must hold full responsibility for the conduct of their departments." Subsequently, many steps were taken to realize this objective by pulling up to the departmental level many authorities formerly vested by law in subordinate bureaus and agencies.

Recommendation

In order to realize the full benefit of this improved focus of responsibility and to improve the efficiency of our governmental system, the Commission recommends that:

a. Career administrators, as rapidly as possible, should be relieved by the non-career executives of responsibility for advocacy or defense of policies and programs and should be kept out of direct participation in political controversies. This recommendation is in no way intended to restrict Congress in obtaining information from any employee of the Government.

b. Additional competent non-career executives should be worked into management organization at the departmental level to help carry the workload, assist the secretaries and assistant secretaries in improving their control over and grasp of departmental business, and take over the political tasks formerly handled by many career administrators. Political appointees should not be placed in the line of command below career administrators. Obviously, such appointments undermine the line of command and make the position of career administrator untenable.

Clearer Division Between Non-Career Executives and Career Administrators Needed

While the activities of both non-career executives and career administrators are complementary, each group has a vital and distinct function. These should not be confused with each other.

Unfortunately, we have not in the past made a successful distinction between the two groups. In March 1953, an attempt was made to improve the delineation by the establishment of a definite class of political employees beneath the level of assistant secretary and exempt from the competitive civil service rules. At that time, political and confidential employees were removed from Schedule "A" and placed in a new Schedule "C." The Commission concludes that while the concept of separating political and confidential jobs from other exempted jobs is basically sound, Schedule "C" has not yet achieved its desired objective, and the line between the kinds of activities carried on by non-career executives and those carried on by career personnel remains unclear. Also, some uncertainty as to the concept has resulted from the subsequent transfer to Schedule "A" of a substantial number of positions formerly in the competitive civil service and a tendency once more to create obviously political positions in Schedule "A."

The Commission, with the assistance of its Task Force, has developed general criteria for improving the line of demarcation between the types of positions which should be classed in the non-career executive category and those which should be in the career category. Since the number of positions filled on the basis of political appointment amounts to only about one-half of one per cent of the total Federal work

—United Press

THE HOOVER COMMISSION AT WORK: (L to R, clockwise around the table) Attorney General Herbert Brownell, Jr. (left, foreground), Robert G. Storey, Sidney A. Mitchell, Herbert Hoover, John B. Hollister, Homer Ferguson, Arthur S. Flemming, Senator John L. McClellan, Representative Chet Holifield (almost hidden), Representative Clarence J. Brown, James A. Farley, Solomon C. Hollister, Joseph P. Kennedy

force of 2,300,000 persons, our criteria concern this smaller number of positions. While obviously, these recommended criteria must be applied with some flexibility, they do provide a guide for making a practical division of labor between the two groups.

Recommendation

We recommend that the President designate the positions which should be in the non-career category and that he use the following criteria to distinguish positions which should be in this non-career category:

a. All positions filled by appointees of the President, with or without confirmation by the Senate;*
b. All positions having vested in them statutory authority or executive delegations of authority requiring the incumbents to make final decisions in the establishment of governing policies, programs, objectives and in the enunciation of principles which will control the action of subordinates in the implementation of the foregoing;
c. All positions, the duties of which require the incumbents to act publicly in advocating new policies and in justifying or defending the governing policies or the basic principles or philosophy which controls their department or agency policies. Such duties would include direct participation with, or representation of non-career executives in public debate, evaluative discussions, and justifications of departmental policies, programs or activities.
d. Most positions of a personal and confidential nature, such as personal aides, confidential secretaries, and personal chauffeurs. Non-career executives may, of course, continue to employ career people in such positions.

The Commission believes that the use of these recommended criteria together with the concept of concentrating political responsibility at the departmental level would do much to lessen the difficulties involved in this complex problem.

* * *

Problems of Finding Able Non-Career Executives

The Task Force estimated that on the basis of its suggested criteria for determining non-career executive positions there are presently between 700-800 such positions in the Federal Government. We have urged that additional non-career executives be worked into top management positions to help carry the increased political workload.

Many Presidents and department heads have testified as to their difficulties in keeping these positions filled with competent men. The Task Force notes that we have not as a people maintained public service as an attractive or even an endurable pursuit. The Commission strongly concurs in this belief and endorses the Task Force suggestions for increasing the supply of competent non-career executives.

Increased Compensation for Top Managers

As a people we must realize that the present executive salary scale imposes a marked disadvantage on the Government in its attempts to attract and hold competent men in public service. The discrepancy which exists between executive salary levels in the Government and in private life is considerable, especially when we consider the size and complexity of modern Government and heavy responsibilities of public office.

*Except certain positions which the Commission recommends be removed from either Senate confirmation or Presidential appointment or both.

A substantial increase in compensation is needed as tangible recognition of the heavy responsibilities we have put upon executives and which they are being asked in our report to shoulder even more completely. The impact of such salary increases in relation to the Federal budget would be small enough indeed, but it would be a vital step in facilitating the needed interchange of competent men between private life and public service. It would also increase the likelihood that the able persons would find it possible to remain in public service for longer periods and resist the temptation to secure higher pay and other benefits in private employment.

While matters involving the legislative and judicial branches of the Government are beyond the jurisdiction of this Commission, we note with approval that legislation is now pending raising substantially the salaries of members of Congress and Federal judges. This is a recommendation of the principles we have enunciated here.

Recommendation

We recommend that Congress authorize salary increases for the Government's top managers (career and non-career) as a practical means of securing and holding competent men in public service.

Conflict of Interest Laws

A particular obstacle to attracting competent men into political service is the problem caused by those portions of the conflict of interest laws requiring divestment of personal investments and industrial pension and other rights. While competent men may be willing for temporary periods to accept lower pay in public service, increasingly they are becoming reluctant to give up their lifetime accumulations of investments and pension and other rights of private industry and life. We must develop a fresh approach to this matter.

Recommendation

We recommend that the President and the appropriate committees of the Congress review the conflict of interest laws to determine whether the intent of such laws can be better achieved by other and more positive means which would encourage rather than discourage entry of competent men into public life.

The Senior Civil Service

Just as there is need for increasing the number and quality of non-career executives so is there need for providing within the Civil Service system a highly competent group of career administrators, neutral in politics, who will work under the direction of non-career executives in operating the machinery of the Federal Government.

The system of personnel administration which now exists has several serious defects when it comes to supplying competent civil servants for the most important career managerial and staff positions.

Although the Government is the largest employer with the greatest continuing need for managerial competence, it has no system by which it identifies men and women of great capacity within the Government. It has no integrated and well understood means of officially recognizing competence even after it is demonstrated. The personnel system as such does not place major and positive emphasis on affording incentives to those who would devote outstanding talents to a career within the Civil Service, despite the fact that the Government is dependent upon men who will make national administration their life work. The Civil Service system emphasizes positions, not people. Jobs are classified, ranked, rated, and their compensation determined on the bland as-

(Continued on page 116)

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The Civil Service law and system are designed primarily for other purposes. Originating as a reaction against the spoils system, and adapted to the large-scale employment problem of twentieth-century government, the present Civil Service system has not been geared to provide or develop professional administrators at the higher levels. The extension to higher posts of concepts and procedures which were designed for large numbers of standardized positions at lower levels has been awkward for both non-career executives and career administrators, because such concepts disregard so completely both the personalities and the careers of individual men. New concepts, policies, and procedures are needed which are designed specifically to supply career administrators at the higher levels. We propose a program designed to meet this need.

The Proposed Senior Civil Service Defined

There should be established a "Senior" Civil Service to consist of a group of career administrators carefully selected from all parts of the Civil Service and from all departments and agencies solely on the basis of demonstrated competence. They would be nominated to the service by department and agency heads and appointed by a Senior Civil Service Board to positions approved by it, with the consent of the President. In general, they would be paid from funds of their employing agency at not less than a basic rate fixed by the board.

° ° °

The Commission believes that no attempt should be made here to specify too closely the details of this proposal. Considerable flexibility should be allowed for growth and adaptation of the Senior Civil Service to the Government's changing needs. The basic features of the Senior Civil Service should be as follows:

1. Personal-Rank Status. Members of the service should have their rank, basic salary, and status vested in them as individual civil servants. This would differ from the traditional practice of attaching rank and salary to the job. In a sense they would be "commissioned officers" of high rank and would occupy high administrative positions subordinate to agency heads and the political executive group. It is suggested that initially 1,500 persons be appointed as rapidly as qualified persons can be selected and that the number be increased progressively. An ultimate strength of 3,000 may be needed.*

The size should be determined by the number of positions in which senior civil servants can be used appropriately and with selectivity. The Senior Civil Service Board would work out with departments and agencies the kinds of billets which would be filled by senior civil servants.

2. Flexibility. Members could move from one job or assignment to another in top management without the present danger of suffering loss of their basic pay or status. For example, a senior civil servant might be moved from a position as head of a division in an operating bureau to be the aide to an assistant secretary, and from there he might later be assigned to a regional office.

3. Obligation to serve. The corollary of personal-rank status is an obligation upon the part of the senior civil servant to serve where needed most. Subject to a rule of reason and, of course, with a right to have his views considered in the decisions, he could be expected to fill an appropriate position in Washington, in the field service, or abroad, as needed.

*The Task Force estimated that there are presently in the whole Executive Branch about 3,000 top management career positions. Therefore the idea of a Senior Civil Service does not embrace the creation of additional positions.

4. Political neutrality. Senior civil servants as a group should be fully prepared to serve faithfully each administration that takes office. This means that they must avoid such emotional attachment to the policies of any administration that they cannot accept change and work in harmony with new leaders. Senior civil servants would necessarily refrain from all political activities that would affect adversely their ability to perform their official duties fairly, or that would tend to identify them personally with a political party or its policies. The Hatch Act has already made this obligation clear where electoral campaign activities are concerned.

The senior civil servant should make no public or private statements to the press except of a purely factual nature. He should make no public speeches of a political character. He should not contribute to political campaign funds. He should avoid public identification with a political party, e.g., in rallies, fund-raising drives, and the like. On the other hand, he should be ready at all times to provide background information, relevant data, and even technical advice where such assistance can be helpful.

5. Compensation. Senior civil servants should be paid adequately. Their salaries should range from the equivalent of GS-15 (presently $10,800 to $11,800) at entrance into the Senior Civil Service, upwards to a figure equivalent to that of under secretaries (presently $17,500). The latter salary would be attained by men of long service with outstanding records.

° ° °

Separations for Cause and Appeals

Procedures for removing employees from the Civil Service are complex and elaborate. They are fixed by both law and regulations. The provisions of the Lloyd-La Follette Act of 1912 provide a simple and just method consonant with the requirements of an efficient public service. . . .

Over the years, agencies have tended to make this simple removal procedure more complex than it need be. They have added elaborate removal requirements and have given employees appeal rights in some cases through every step in the organizational chain.

Further complications have grown out of Section 14 of the Veterans' Preference Act of 1944. Under this Section a veteran is entitled to a right of appeal to the Civil Service Commission after having gone through the procedure prescribed in the Lloyd-La Follette Act in his own agency, and the Civil Service Commission may override the employing agency. More than 50 per cent of Federal employees are now veterans. This 1944 Act for the first time introduced Civil Service Commission control of the power of a department head to discipline his staff.

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Recommendation

We recommend that:

a. A veteran's special right to appeal to the Civil Service Commission be limited to the first 5 years after appointment to the service. At the completion of the 5-year period the veteran would revert to the regular appeal procedures now available to non-veteran employees.

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Reductions in Force

At present, regulations governing layoffs or reductions in force are dominated by the provisions of Section 12 of the Veterans' Preference Act of 1944.

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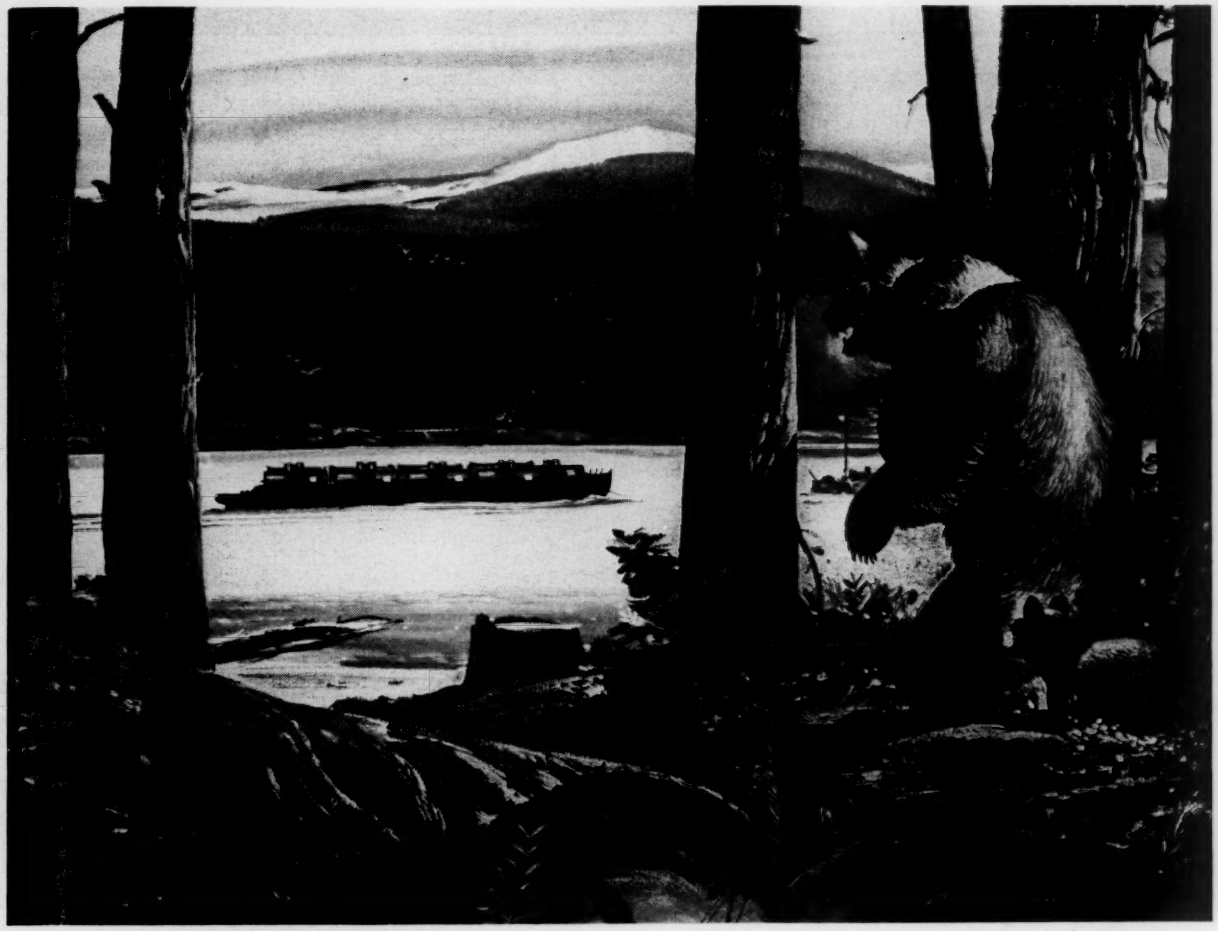
(Continued on page 118)



Chemicals for Alaska's new gold

On the Alaskan panhandle, grizzled sourdoughs once scanned their pans for the bright glint of gold.

Now engineers of modern industry scout the land in helicopters to stake claims for industry.

Already working is the new $52 million plant of the Ketchikan Pulp Co., formed by American Viscose and Puget Sound Pulp and Timber. It will draw on 78 billion board feet of commercial timber in the Tongass National Forest.

Pulp of high quality requires large quantities of chlorine and caustic soda. So today, from Tacoma through the beautiful Inner Passage, goes a special barge, its hold heavy with liquid caustic soda, its deck crowded with tank cars of Hooker chlorine and other raw materials—bound for Ketchikan.

From plants in Niagara Falls, Tacoma, and Montague, Michigan, Hooker supplies much of the chlorine and related chemicals used by American industry.

The Tacoma plant, which supplies Ketchikan, opened 25 years ago, and has played a pioneer's part in the Northwest's industrial development. Across the border in Vancouver, Hooker is preparing other facilities to serve this growing area.

Hooker chemicals—from the salt of the earth—are helping to extend new industrial frontiers into the wilderness, helping in the creation of new products and new industries here at home . . . as they have through half a century of chemical pioneering.

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The Task Force recommended that absolute veterans' preference in reduction in force be terminated . . .

The Commission believes that absolute veterans' preference has worked particularly severely against non-veteran employees of long service. While the Commission favors granting special advantages for veterans in layoff procedures, this consideration should be balanced in such a way as to avoid working too strong a hardship on non-veterans of long service to the Nation.

Recommendation

We recommend that reduction-in-force procedures specified in Section 12, Veterans' Preference Act, and other laws should be modified to provide:

a. That a system be established which divides competing status employees into three categories: (1) Veterans with compensable service-connected disabilities; (2) all other veterans, and those non-veterans of 15 or more years Federal service; and (3) all other employees.

b. That in calculating Federal service each full six months of military service during time of war or extended military action shall count for one year of civilian Federal service; each year in which a Civil Service employee received a meritorious or outstanding service award may be counted as one and one-half years of civilian Federal service. . . .

c. That in layoffs the order of retention be as follows:

(1) Veterans with compensable service-connected disabilities shall have preference over all other competing employees. . . .

(2) Veterans with competitive status having no compensable disabilities shall have preference in layoffs over all other employees except veterans with compensable disabilities and non-veteran employees with status and 15 or more years service. . . .

(3) Non-veteran employees with competitive status shall have preference over all employees without status. . . .

d. That no employee, except veterans with compensable service-connected disabilities, who has less than 5 years of service (calculated in the manner prescribed above) shall have reassignment ("bumping") rights in reductions in force.

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Rural Letter Carriers

On April 30, 1954, there were 32,352 rural letter carriers, including both regular and temporary employees. They are under the competitive Civil Service system. Appointments are made after examination (the same test as for fourth-class postmasters). On the average, nearly 15 applicants compete for each vacancy.

Rural carrier examinations are centrally run by the Washington office of the Civil Service Commission. The Commission issues a "Certificate of Eligibles" to headquarters of the Post Office Department where selection is made according to the "Rule of Three." Before a selection is made, however, the Department consults with political advisers. If the vacant position is located in an area not represented in Congress by the Administration's party, a local political committee is consulted. If it is in an area represented in Congress by the party in power, the local committee submits its recommendations through the appropriate Congressman. The Post Office Department is notified and then makes its selection.

The pressure on the Civil Service Commission to re-rate the papers, to disqualify candidates for technical reasons, or even to avoid an examination if the politically preferred candidate is not among the first three, is considerable. The undesirable intrusion of political pressure in Civil Service Commission activities and the career nature of the job of rural letter carrier lead us to conclude that these positions should be disassociated from politics.

Recommendation

We recommend that the President direct termination of political clearance of eligibles for appointment as rural letter carriers.

Other Presidential Appointments

For reasons similar to those discussed above and earlier in the report, the Commission concludes that a strong career service as a vital underpinning to efficient government requires gradual elimination of political appointments in general for positions in which the incumbents serve under career administrators.

Recommendation

We recommend that U. S. Marshals and field officials of the Bureau of Customs and the U. S. Mints be brought under the Civil Service and "positions" should be filled by departmental appointments in lieu of the present method of appointment by the President.

Codification of Civil Service Laws

There is a great mass of laws, Executive Orders, and regulations affecting all types of personnel. As an example, the Department of Agriculture reported on October 1, 1947, 199 laws which affected the management of its personnel. This makes for great difficulty in personnel management.

Recommendation

We recommend that:

a. The Civil Service Commission, with the Bureau of the Budget, undertake a codification of the laws and orders affecting Federal personnel management.

° ° °

Savings

The Commission believes that its recommendations and suggestions are designed throughout to simplify and expedite Federal personnel management, contribute to higher employee morale and efficiency and thereby raise generally the level of service to the people. We also believe that the benefits and economies which will flow from our recommendations and suggestions for improved personnel management, though not reducible to dollar measures in most cases, are very substantial and would far offset any increases in costs which would accrue from their implementation.

We believe that the effect of our recommendations concerning non-career executives and the Senior Civil Service would do much to attract able people into the Federal service, make more efficient use of them while they are there and retain them longer. Sustained improvement in the competence of the Government's top managers will quickly and directly improve the effectiveness of all Federal employees in serving the public.

° ° °

We do not attempt to estimate an overall savings figure in connection with our recommendations. Even if this were possible, it would be relatively small compared to the indirect immeasurable gains which improved personnel management can bring to the operation of government. Every segment of our society would benefit from better direction of governmental affairs.

Turnpike Builders

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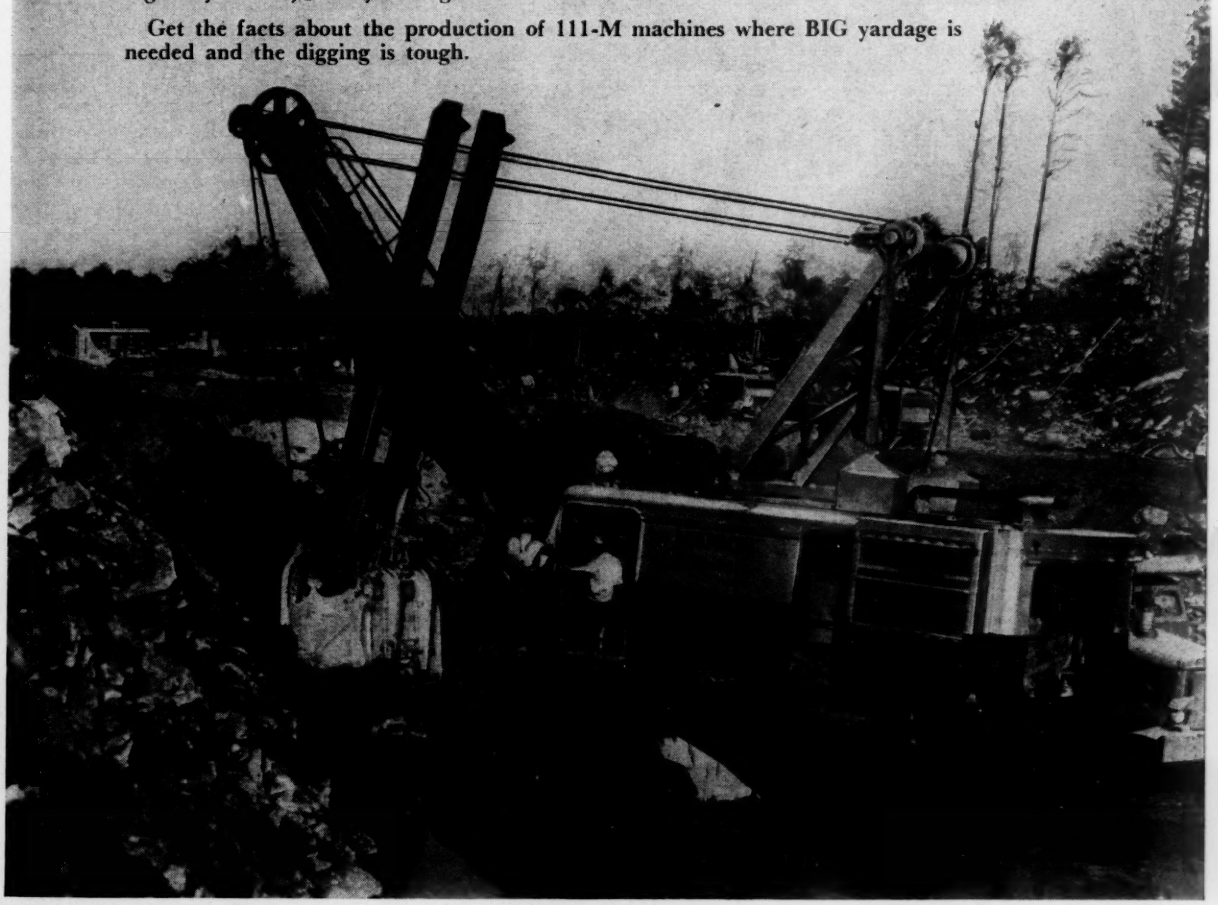
Get the facts about the production of 111-M machines where BIG yardage is needed and the digging is tough.



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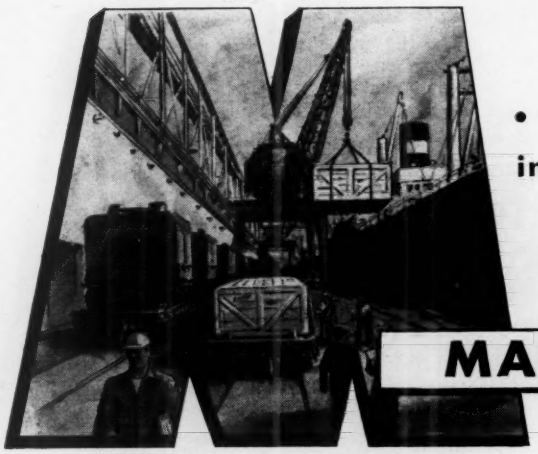

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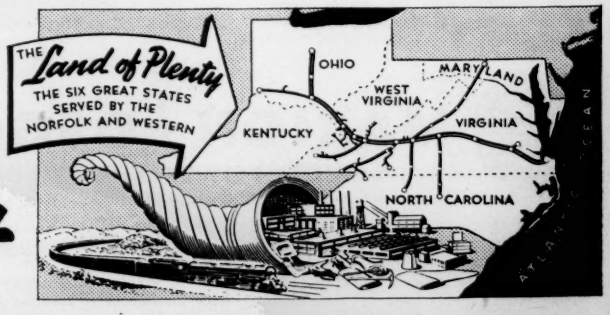

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Job situation is improving. There is little doubt about that now.

Employment, it's true, declined from December to January, but it always does. Point is that the drop was less than usual this year.

Unemployment also rose, but the rise was smaller than in most years.

Total number of employed reported by the Commerce Department is higher now than it was a year ago. Comparative figures are 60.2 million in January this year, against 59.7 million a year ago. Figures include everyone at work.

Employment figures, however, are going to be the source of argument for some weeks to come. The Administration and its supporters are using them to cite evidence of business improvement. Critics say that the same figures show that the recovery is not going far enough.

Take this new index of unemployment just issued by the Government.....

Unemployment late last summer was 140 per cent of the 1947-49 average.

Number of jobless now is down to 114 per cent of the 1947-49 average.

These indexes are adjusted for seasonal changes. They show a decided improvement in the job situation in recent months.

Now look at these job figures from the Federal Reserve Board.....

Total employment in trade and industry hit 48.5 million in January, with seasonal adjustment. In December the figure was 48.4 million.

Payroll employment, considering the season, actually improved in January. Total number on business payrolls, however, was lower this year in January than in January of 1954--about 350 million lower.

Nonfactory employment--workers in construction, trade, finance, services and in Government--is above a year ago.

Factory employment, however, is reported to be 500,000 below a year ago, even though factory output is running ahead of last year.

Here is where the argument begins and is likely to continue.

Critics of the Eisenhower business policy are saying that Government should do something to promote still further employment, that anything less than reasonably full employment is uneconomic.

Supporters of current policy refuse to get excited about this trend. They argue that business improvement, now so evident, can continue under its own power.

You already are hearing these arguments before the Joint Committee on the Economic Report, which now is inquiring into the business situation.

But there is more than words involved in this dispute. The critics are urging a greater outlay for schools, highways, other public projects. And they suggest lower taxes on low-income families to boost purchasing power. The sup-

(over)

porters say that such actions would tend to produce another inflation.

Actually, business seems to be developing a full head of steam.

Building boom shows no signs yet of slowing down.

Building activity in January continued at a record rate. Considering the season, the outlay for new construction was at an all-time high.

Home construction remains the strongest support of the boom. However, other types of building also are displaying strength.

Commercial building--office buildings, stores--is still running well ahead of a year ago and shows signs of continuing to expand.

More important, perhaps, is the January rise noted in industrial building. This type of construction has been declining, but increases have been noted in the last three months. Industrial expansion may be turning up again.

Further support for construction comes from new contracts. Contract awards reported for January by F. W. Dodge Corporation were higher than a year ago for both residential and nonresidential building. This means that future construction is to be high. And building is a powerful prop to business.

Retail trade also seems to be holding close to the pace attained just before Christmas. That, too, takes the season into consideration.

Total retail sales, after seasonal adjustment, are estimated officially to have dipped only 1 per cent below December's record rate, and to be running 10 per cent ahead of a year ago. Latest estimates are for January.

Sharpest sales increases over a year ago are reported by auto dealers. The auto industry, in fact, is about even with construction in contributing to the general upturn in business activity.

Other retail stores, however, also are improving over last year's volume. Year-to-year gains are reported for food stores, restaurants, department stores, hardware stores, lumber yards, service stations.

Gains, apart from auto dealers, are small, but they still are gains.

In view of these trends, it's unlikely that agitation for more Government spending, or for individual income tax cuts, will be heeded. The Administration appears to have a strong case for letting things alone just now.

But you can expect a vigorous dispute over credit policy.

Government's money managers in the Federal Reserve Board and Treasury are inclined to let credit conditions tighten up a bit at this time.

Basic reason for this policy is the view that too much credit might spark too much business expansion at the moment, too much to be healthy.

Opposing view cites industry's unused capacity, the pool of nearly 3.4 million unemployed, to argue that inflation is just a phantom danger now.

Outlook, however, suggests continued caution in credit management. After all, this is the view that now prevails in places where credit is regulated.

Treasury, in any event, has been successful with the latest refunding.

Long-term bond offering--40 years at 3 per cent--got investors to subscribe to the tune of 1.9 billions. Outside limit was 2.6 billions.

All told, the Treasury refunded more than 14 billions of maturing issues.

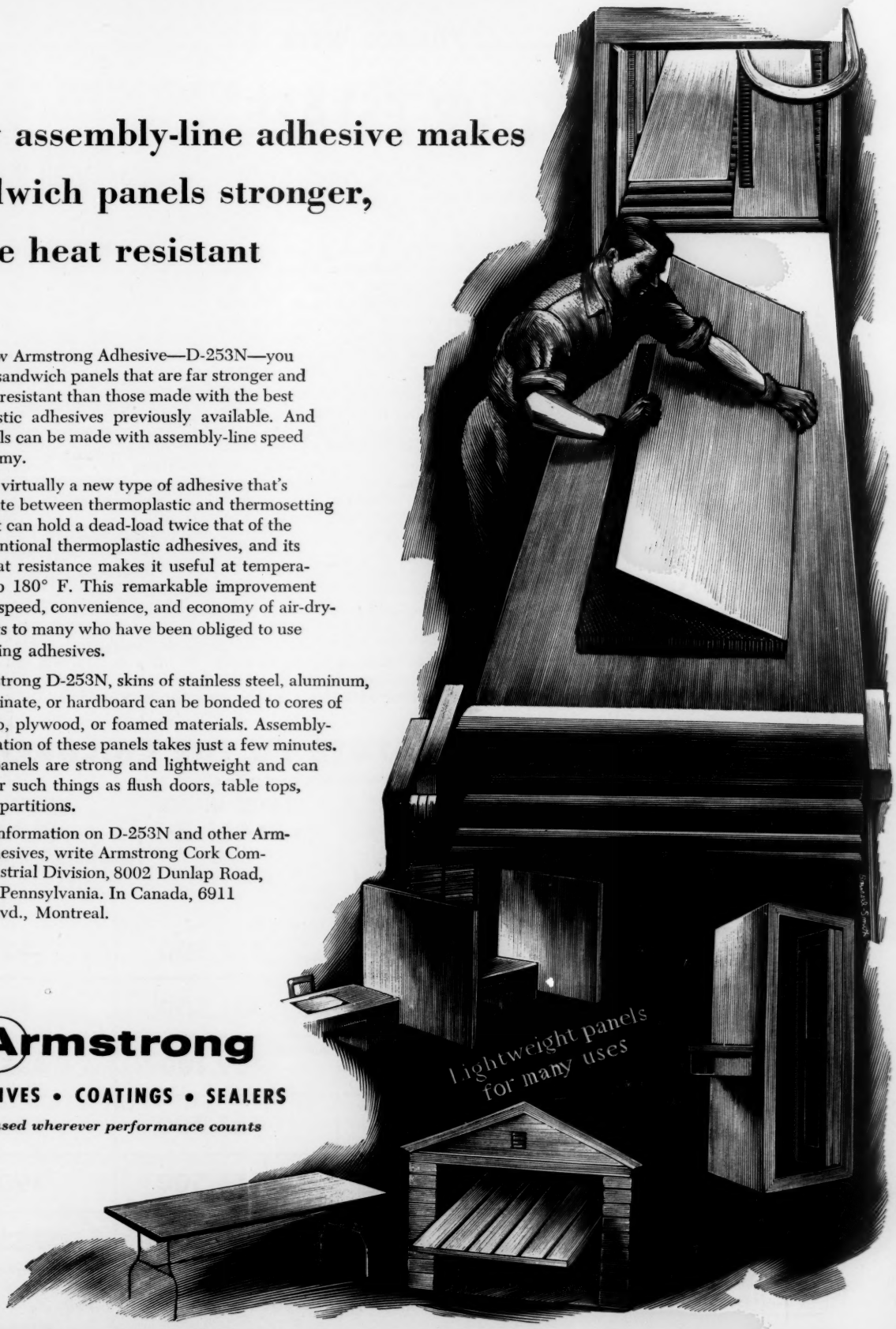
New assembly-line adhesive makes sandwich panels stronger, more heat resistant

With a new Armstrong Adhesive—D-253N—you can make sandwich panels that are far stronger and more heat resistant than those made with the best thermoplastic adhesives previously available. And these panels can be made with assembly-line speed and economy.

D-253N is virtually a new type of adhesive that's intermediate between thermoplastic and thermosetting cements. It can hold a dead-load twice that of the best conventional thermoplastic adhesives, and its greater heat resistance makes it useful at temperatures up to 180° F. This remarkable improvement brings the speed, convenience, and economy of air-drying cements to many who have been obliged to use thermosetting adhesives.

With Armstrong D-253N, skins of stainless steel, aluminum, plastic laminate, or hardboard can be bonded to cores of honeycomb, plywood, or foamed materials. Assembly-line fabrication of these panels takes just a few minutes. Finished panels are strong and lightweight and can be used for such things as flush doors, table tops, and office partitions.

For more information on D-253N and other Armstrong Adhesives, write Armstrong Cork Company, Industrial Division, 8002 Dunlap Road, Lancaster, Pennsylvania. In Canada, 6911 Decarie Blvd., Montreal.



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PLANNING YOUR ESTATE

Gifts and Split Bequests Will Cut Taxes

American families, more than ever before, are discovering that their pile of savings is threatened by the federal estate tax.

The discovery — along with new tax changes—is leading people to check the rules. This article gives some methods of transferring funds with a minimum tax load.

A problem once reserved to the wealthy few is beginning to sneak up on thousands of families. It is the problem of federal estate taxes and what they take out of the savings that people put aside for their families.

There was a time, only a few years ago, when a man with a modest accumulation of savings could ignore taxes in planning his estate. Now more and more families are likely to be subject to the U. S. estate tax.

In 15 years of inflation and prosperity, income and savings have grown rapidly. Individuals have poured billions upon billions of dollars into homes, life insurance, securities, bank accounts. Yet the amount of property exempted from the federal estate tax is unchanged.

New changes just taking effect in tax law are making it even more worth while to plan for disposition of estates. For many, the solution centers around the opportunity for an individual to give away part of his holdings while he still lives.

The problem. The big question, simply put, is this: What can an individual do to assure his family members that they —and not the U. S. tax collector—will inherit his savings? The right answers often can mean big savings on income taxes, as well as the estate tax.

Story of what you can do along these lines is one that is best told by example. First, though, you need to understand a few simple rules that apply in figuring the federal levy. State taxes should be taken into account separately.

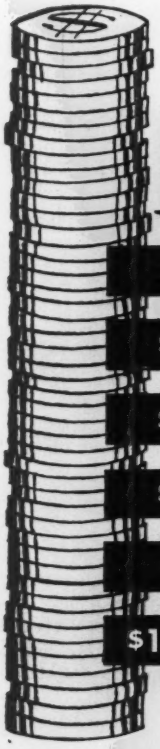
The federal estate tax is levied on your assets, after certain expenses and other deductions are figured. Expenses include debts, and costs of administration and burial. Of what is left, you can leave as much as half to your wife—or husband—tax free. You can make charitable contributions tax-free, too. In addition, you get a specific exemption of $60,000.

The remainder, if any, is taxed at rather steeply graduated rates running up as high as 77 per cent.

Those are the main estate-tax rules you need to keep in mind in checking the cases of representative taxpayers.

Where there's a will. To start with, take the man who wants to leave his $200,000 estate to his two children, but who also wants to see that his wife is provided for during her lifetime.

The first plan that occurs to this taxpayer is simply to leave his entire estate to his wife. She will be able to live off the income from the property and pass it on to the children. With half the estate



LEAVING YOUR ESTATE TO THE CHILDREN—

Federal estate taxes, husband's and wife's, will total:

HUSBAND'S ESTATE	TAXES UNDER PLAN A: *Leave entire estate to wife — estate to be passed on to children at her death*	TAXES UNDER PLAN B: *Leave entire estate to children*	TAXES UNDER PLAN C: *Leave half to wife, half to children — wife's share to be passed on to children at her death*
$150,000	$18,264	$17,500	$2,100
$200,000	$34,937	$31,500	$9,600
$300,000	$71,770	$59,100	$35,000
$400,000	$110,128	$87,700	$63,000
$500,000	$148,754	$116,500	$90,600
$1,000,000	$350,087	$270,300	$233,000

Note: Assumes husband owns entire estate, dies more than 10 years before wife.

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HOW GIFTS CAN REDUCE YOUR FEDERAL TAX

VALUE Of Your Estate	PLAN A: Keep your estate until death — willing it to your family	PLAN B: Give half of your estate to your family before death — will the other half to your family			
	ESTATE TAX WILL BE:	GIFT TAX WILL BE:	ESTATE TAX WILL BE:	TOTAL TAX WILL BE:	TAX SAVING UNDER PLAN B:
$150,000	$1,050	$ 0	$ 0	$ 0	$1,050
$200,000	$4,800	$458	$ 0	$458	$4,342
$300,000	$17,500	$3,094	$ 880	$ 3,974	$13,526
$400,000	$31,500	$8,040	$4,076	$12,116	$19,384
$500,000	$45,300	$14,467	$8,800	$23,267	$22,033
$1,000,000	$116,500	$53,715	$37,888	$91,603	$24,897
$2,000,000	$270,300	$141,090	$96,183	$237,273	$33,027
$5,000,000	$830,000	$438,630	$279,935	$718,565	$111,435

Note: In all cases — gifts and bequests — wife gets half, and each of two children gets a fourth.

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passing to the wife tax-free under the "marital deduction," the husband's estate tax is only $4,800.

Hitch in this plan, the taxpayer discovers, is that at his wife's death there will be a tax of $30,137 on her estate. With no husband, she will have no marital deduction to take. So the entire estate will be taxed at once—and at progressive rates.

Actually, the tax might be less than $30,137. If the wife dies within 10 years of her husband, credits for his estate taxes will reduce the tax on her estate. If she dies within two years of him—an example that illustrates some new tax rules—the entire tax paid at his death will be credited on her tax bill.

Next plan that gets study—Plan B in the chart on page 124—calls for leaving the entire estate to the children. Then there will be no estate tax when the wife dies. Still, the estate tax at the husband's death will be high—$31,500—since again the entire estate will be taxed at once at progressive rates.

Final plan is a compromise. If the husband leaves half to his wife and half to the children, the half that goes to his wife will pass to her tax-free. At her death, only half of the original estate will be taxed. Total tax, after both deaths, will be only $9,600—half of it levied at each of their deaths.

This taxpayer expects to save about $25,337 by using Plan C. The chart shows how big these savings can be for people with smaller and larger estates. On a 1-million-dollar estate, for example, the saving is $117,087.

Why wait? Even bigger sums often can be saved by the taxpayer who gives part of his holdings to his family before his death.

An example or two will show how. But, again, you need to keep a few simple rules in mind, since gifts themselves may be subject to taxes.

The gift tax is levied on the giver—not the receiver—as a device to prevent people from avoiding estate taxes. But this aim is not entirely achieved.

First, gift taxes are graduated at levels only three fourths as high as estate taxes.

Second, you can give away rather sizable amounts tax-free. In any or all years, you can give as much as $3,000 apiece to any number of individuals. In addition, you can give away $30,000 tax-free as a "lifetime exclusion."

Also, if you are married, you can give twice those amounts tax-free, if your mate consents to the gift. And half of what you give your wife is tax-free.

Gifts of amounts in addition to these "exclusions" are subject to progressive tax rates—taxable gifts you made in the past mean higher rates on gifts you make now and in the future.

Gifts vs. bequests. To see what can be done under these rules, just assume you are a taxpayer with $200,000 that you want to transfer to your family—half to your wife and a fourth to each of two children.

Like the taxpayer in the first example, you'll find that waiting until death will mean an estate tax of at least $4,800 on your assets. But some judicious giving while you live can be highly beneficial to your family.

You can, for example, give half of your estate to your family now—a fourth to your wife and an eighth each to your two children. You can bequeath the other half of the estate to the three in the same proportions.

If you do, the gift tax will come to only $458, since much of the giving will be tax-free. Specifically, half of the gift to your wife will be exempt. And, with her consent, you can give $6,000 to each child tax-free. In addition, you can use your "lifetime exclusion" and a part of your wife's.

(Continued on page 126)

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Estates can be kept nearly intact if wife, children share bequests and gifts are spaced . . .

At your death, then, with an estate worth a bit less than $100,000 after payment of the small gift tax, the estate tax will be nothing. Half of the estate will go to your wife tax-free, and the specific exemption of $60,000 will cover the remainder.

Your total tax, thus, comes to $458, instead of $4,800, for a saving of $4,342. How this plan works for estates of different sizes is shown in the chart on page 125. On a 1-million-dollar estate, the saving is $24,897.

Yet this leaves many tax-saving possibilities still undeveloped.

For one thing, these examples assume that gifts are made all at once—as a man might make them if he learned of these facts late in life. With a little advance planning, gifts can be made over a period of years in order to make use of more of those $3,000 annual "exclusions," or exemptions.

Also, not included are savings to be had on income taxes through gifts of income-producing property.

How a widow sees it. Widows by the thousands in this country offer good examples of potential savings.

Widow Brown, for example, is planning to leave her $200,000 to her two nephews when she dies. But the tax collector is going to take $31,500. There are cheaper ways to do it.

The widow can give a total of $140,000 to her nephews over a period of 10 years for a gift-tax bite of only $5,250. Rest of her estate—$54,750 after payment of the gift tax—can be passed on to them tax-free under the widow's specific exemption of $60,000.

The widow will not spread her gifts evenly over 10 years, however, if she knows the score. For one reason, she will want to make use of her $30,000 lifetime "exclusion" quickly, lest she die before she can use it.

Another reason is provided by the so-called "contemplation of death" rule. Under it, gifts made within three years of death are presumed to be in contemplation of death—that is, an attempt to avoid estate taxes. The presumption may be rebutted, of course. Yet Widow Brown will do well to make larger gifts in the early years of the plan.

To show how income taxes may be saved, too, take the case of Widow Jones, who has two married sons and a million dollars. Her money, invested at a 4 per cent yield, provides a $40,000 income. Each son has an income of $10,000. Taxes on their aggregate income of $60,000 come to $19,552, leaving them $40,448.

Assume now that the widow transfers a fourth of her property to each son and pays a gift tax of $100,635 on the transaction. Her remaining estate, $399,365, yields an income of $15,975. And each son's income doubles, to $20,000.

The family income has been reduced by $4,025—the 4 per cent yield on the property sacrificed to pay the gift tax. But income taxes are reduced by $7,262. The family has $3,237 more after taxes than it did before, and it's a saving that continues year after year.

At the widow's death, there will be an estate tax of $87,517 on her holdings, worth $399,365. That, plus the previous gift tax of $100,635, brings the tax cost of transferring the fortune to $188,152. If the entire estate had passed at the widow's death, the estate tax would have been $270,300. So there will be a saving of $82,148 on estate taxes, plus the savings on income taxes.

Widow Jones—and other tax-conscious people—will take care that the gifts she makes are "complete and irrevocable." If there remains any substantial chance that the gifts will return to her before her death, they may not be counted as gifts, even though gift taxes have been paid.

For the same reason, a husband giving property to his wife will avoid any arrangement under which the property might revert to him at his wife's death. He can make sure, for example, that in his wife's will the property is left to the children, or to others.

As an alternative, he can give property in trust to his children, with a provision that his wife gets a lifetime right to income from the property. Her death then will not call for further estate taxes, since she will have had no control over the principal.

New rules helpful. Changes just made in the federal tax code make it easier to avoid breaking up family estates in order to pay estate taxes. New rules for life insurance are particularly significant.

Under old rules, the man who took out a policy on his life, expecting the proceeds to pay his estate tax, ran into difficulties. If he paid the premiums on a policy that would pay off to, say, his wife, then the value of the policy itself was included in his estate. That made estate taxes themselves bigger.

Now, under new rules, the fact that he pays the premiums on that policy will not require the value of the policy to be included in his taxable estate.

To show how that works out, take the man who has $500,000 to leave his wife. The estate tax would be $45,300. Under

. . . Signing insurance over to wife may help

old rules, if he took out a $50,000 policy on his life, in order to pay the tax at his death, his taxable estate jumped to $550,000, and his tax to $52,200. Under new rules, he can avoid the extra $6,900 of estate tax—if he signs full ownership and control of the policy over to his wife or other beneficiary. When the taxpayer is single—for example, an aged parent—the savings under this new rule can be even larger.

Gift taxes, of course, must be reckoned with, but the annual $3,000 exclusions and the marital exclusion will help with those.

Note that a taxpayer who already owns a policy on his life may be able to use this new rule, too, simply by signing his policy over to his wife.

Some taxpayers, using this method, will need to make the policy payable to a child in event of the wife's death. Such action will avoid the chance the tax collector might rule that the husband retained an interest in the policy.

A new rule for joint ownership of real property also will help many. A couple now can buy a home and take title as co-owners without paying any gift tax, even though one of them provides all the money for the purchase. If they sell the house, all of the sale proceeds can go back to the one who provided the purchase price, again without payment of a gift tax. Under old rules, a gift tax was due when the house was bought and another when it was sold.

These examples and guide lines don't cover all the angles. Taxes imposed by States on these transfers, for example, must be taken into account. Still, this is enough to show that a little study can yield important tax savings.

› Easier taxpaying. Internal Revenue Service is making real progress in its efforts to devise a tax-collection process that will free 30 million or so taxpayers from preparing income tax returns. It's expected that within a few weeks Congress will be asked to provide some new authority for the program.

Actually, the first step already has been taken with the use this year of the punch-card form 1040A by taxpayers with incomes of less than $5,000.

› Capital needs. Investment of 24 billion dollars a year in new plant and equipment is required if this country is to provide jobs for its growing labor force and keep facilities in modern and efficient condition, according to Walter A. Schmidt, president of the Investment Bankers Association.

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WALTER A. PETERSON, *Treasurer*

February 3, 1955

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By a Wall Street Journal Subscriber

I was chatting with the postman who delivers my mail. He remarked that two families on his route who get The Wall Street Journal had recently moved into bigger houses.

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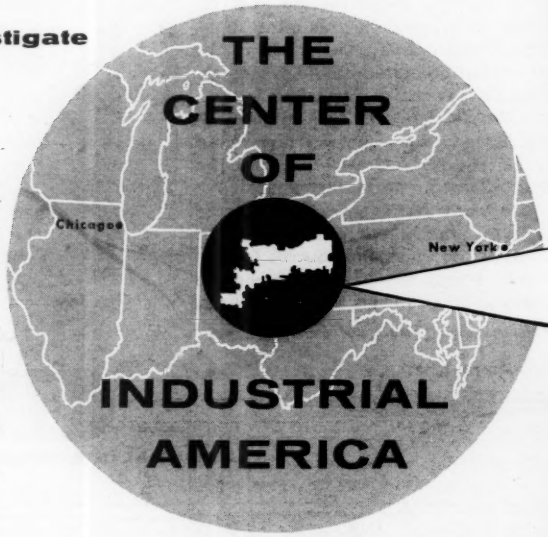

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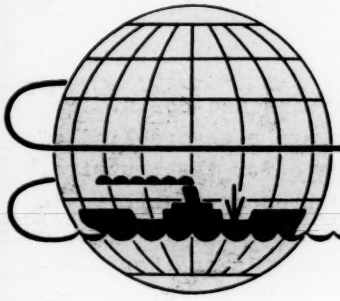

Business Around the World

RIO DE JANEIRO • PARIS • LONDON • OTTAWA

>> That nickel cup of coffee is in sight again. Coffee drinkers are watching the big 1954 hump in coffee prices flatten out. Grocers cut coffee prices sharply last week, reacting promptly to lower prices along the line.

Coffee price war in the producing countries lies behind the markdowns.

Coffee supply, world-wide, is little different from a year ago when prices were much higher. At these lower prices, consumption could pick up.

>> Coffee war is mainly between Brazil, largest producer, and Colombia, second-largest producer. Ordinarily, Colombian coffees sell for more than Brazilian types. The Brazilians have been counting on that.

But the Colombians, who need dollars, fooled them. When the Brazilians set a very high minimum price on coffee exports last June, the Colombians underbid them. In August, the Brazilians cut their minimum price sharply. For several months, Brazilian coffee sold well. Then, last month, the Colombians started clipping prices again. On February 5, the Brazilians cut their floor price quite severely. Last week, Colombian prices were brought down, too.

Question is how long this game of leapfrog can be played. Green coffee prices are down roughly 35 per cent since last June. Larger and larger subsidies are being paid coffeegrowers.

>> As Brazilian coffee exports dropped off last month, the dollar flow into Brazil began to narrow. Bills owed to American exporters started to pile up.

Rio sent a hurry call to Washington for help.

High U.S. officials rushed to Rio last week and promptly granted an Export-Import Bank loan of 75 million dollars. This money will be passed over to the Brazilian central bank and will pay off overdue bills owed Americans.

It is believed that this amount will tide Brazil over until the new coffee crop is marketed in July. However, it is clear that Brazil will have to continue to take it very easy on imports.

Also, much depends on what Colombia does. If more undercutting of Brazilian coffee prices develops, the situation can get acute again.

Meanwhile, exports of Brazil's many other commodities may pick up, following the granting of larger subsidies to exporters in January.

>> Even before Export-Import loan just made, Brazilian debts were impressive.

Brazilians owed Export-Import Bank 444 million dollars; the World Bank, 134 million; the International Monetary Fund, 65.5 million; a group of American private banks, 200 million. There are also a number of private dollar debts, plus fairly large amounts owed to the British, and other Europeans. More than

(over)

half of Brazil's gold holdings are pledged behind the private bank loan.

Internally, there is serious inflation.....mounting prices and costs.

Most experts agree that among Brazil's greatest needs are a severe kind of austerity, drastic credit controls, a realistic exchange rate for the cruzeiro. Yet, the internal political situation is so shaky that the present Brazilian Government probably can't attempt such a tough program.

A new law allowing foreign firms to produce oil in Brazil is another necessity, as Washington sees it. Oil imports absorb much of Brazil's overseas earnings. But powerful political forces oppose such a law.

Underlying difficulties remain in Brazil. Another U.S. loan simply puts off the day of final reckoning, some U.S. officials feel.

>> Changes in the top management of the Kremlin produced varied reactions among businessmen in Western Europe, as in the U.S.

Sensitive barometers, such as stock markets and commodity exchanges, showed no settled trends in Western Europe last week.

Common shares, generally, gave ground for a day or two after the Russian news and then seemed to be leveling off.

Commodity prices were just plain erratic.....Ups and downs, with no clear pattern evident at all.....Far Eastern commodities were weaker than others.

European businessmen, living close under the shadow of Russia, apparently do not feel that the chances of all-out war are increased greatly by the swapping of places in the Soviet high command. At the same time, this new factor, added to the threat in China, reinforces the spreading feeling that quiet accumulation of raw materials and forward placing of orders for finished goods are wise courses to follow right now.

>> The British pound continues to make a weak showing. From time to time, as for six months past, the Bank of England has had to step in and support the pound to keep it above the official floor rate of $2.78.

The Bank of England on January 27 raised the "Bank," or rediscount, rate from 3 to 3½ per cent. One of several reasons for this interest-rate move was to make Britain a more attractive place for foreign funds. Expectation was that foreign demand for the pound would be increased thereby.

But the pound is still weak. And this is during a time of year when it normally shows strength. To bolster the pound sterling, a further rise in the Bank rate is quite possible. Higher interest rates would also be a restraining influence on the inflationary trends beginning to build up in Britain.

Besides "official" sterling, whose rate the Bank of England supports, there are other, cheaper kinds of sterling floating around the world. Using cheap sterling, commodity traders can arrange all sorts of deals that put dollars in their own pockets and keep them out of the British Treasury.

"Commodity shunting," as this is called, seems to be a growing problem for British authorities. To some extent, it may be a result of the freeing of the commodity markets from Government controls. But essentially it will be present until all sterling is worth the same all over the world.

>> The Canadian dollar, too, is somewhat weaker in recent weeks. There's increasing criticism within Canada of its high-priced dollar and its effect on export trade. Ottawa is looking into the matter.

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February 9, 1955.

200,000,000 SLAVES

BY DAVID LAWRENCE

ONE RULER WAS DEPOSED—and another took his place. Thirteen hundred hand-picked "delegates" approved. There was no dissent. It was a fantastic routine.

The people of Soviet Russia, of course—200,000,000 of them—had no voice in the selection. They were given no intimation that the change was even coming.

What thoughts go through the minds of enslaved millions when they learn that an invisible force chooses their rulers for them!

The age-old principle of free men is that governments derive their just powers to govern from the consent of the governed. But in Soviet Russia the individual lives in a reign of terror as the state—personified by a small clique of ambitious men—attempts to impose its totalitarian will on every family in the land.

There's a strange acquiescence—a bewildered compliance for the moment. But underneath there is unrest and a groping for the way out.

The plight of an enslaved people is not unfamiliar. It has been witnessed again and again in history—and always in the evolution toward a climax the same unmistakable signs are to be noted.

For Soviet Russia today is on the road to a major revolution. A nation of 200,000,000 people will not remain indefinitely in slavery.

The concentration camps contain 13,000,000 persons with relatives who day and night are scheming to find a way to liberate their kinsmen. The relatives of millions who have been killed are seeking constantly an opportunity for vengeance.

The Red Army temporarily conforms to the existing pattern of government discipline. But experience shows that, when the revolution comes, the army is the first to break ranks and overthrow the tyrants.

The Communist clique which has been governing Soviet Russia is well aware of the restlessness of the people. There's not enough food. There's not enough clothing. There's no security for anyone.

There's much propaganda talk by the Communist leadership about solving the agricultural problem—for it is well known that a food crisis persists. There's talk of mechanization so that farm machinery can be manufactured to till their vast acreages. But, as the talk goes on, the average man knows he is being condemned to perennial poverty unless some way can be found to achieve individual freedom.

Inside the Soviet Union are more than a score of major nationalities. There are only about 80,000,000 Russians. The other nationalities—around 120,000,000 persons—have little feeling of patriotism about anything Russian. The so-called "Union of Soviet Socialist Republics" is a paper description of a loose federation held together only by the iron hand of the dictatorship group.

But, as has happened so many times in human history, there's no enduring strength in a dictatorship. "Uneasy lies the head that wears the crown," irrespective of the form of despotism or the period in history.

We on the side of the free world now have an unexampled opportunity.

This is the time for us to offer the hand of friendship to the peoples of the Soviet Union and to the peoples of the satellite states.

This is the time to offer food and economic help.

We need make only one condition—that free governments must arise so as to remove the fear of war from the whole world.

For it is this fear alone which compels us to spend on armament billions that could be employed for the constructive purposes of peaceful living.

The world is not safe for democracy today because autocracy, with its myriad of agents, infiltrates our institutions and threatens us with war in numerous areas.

There can be no peace when the citizenry anywhere has no voice in the operation of its own government.

Peoples themselves never want war. Hence, we must make it clear to the enslaved in Europe and Asia that we are ready to help them, for we know they have the power to liberate themselves without bloodshed if they will but exert it in unison.

No group or clique can stand up long against the determination of 200,000,000 people in Soviet Russia to recover their liberties. Their concerted action is what the dictators really fear.

The dismissal of Malenkov reveals conspicuously the weakness of the dictatorship.

The next step is revolution.

We must, therefore, in our policies do nothing to discourage the oppressed peoples. In fact, if our statesmen only had the courage to do so, now is the time to withhold recognition from the Bulganin regime in Moscow and to exert the greatest moral force the world has ever known—the force that exalts the principle of the consent of the governed. For the only way to assure freedom from fear throughout the world is to insist on the establishment of free governments. This is the prerequisite to the abolition of war.

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